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World Business Newspaper http://www.FT.com MONDAY JUNE 23 1997

The seventh part of our 12-part series, FT Mastering Finance, appears today. Topics include performance evaluation, stock market anomalies and financial intermediation.

Jospin favours Dassault merger with Aerospatiale

French Socialist prime minister Lionel Jospin said he favoured a merger of state-owned Aerospatiale and private sector Dassault to create a national leader in defence and aerospace. He did not say whether a combined group would be in the public or private sector. Mr Jospin's party opposes privatisation, but he faces pressure from Dassault and from Aerospatiale's partners in Airbus to press ahead with the sale of the defence and aerospace industries. Page 16

Europe raises Japan pension stakes: European and US fund managers have made new inroads into Japan's huge pension business, almost doubling their assets under management to Y7,270bn ($64bn) from Y3,759bn during the 1996 fiscal year.

Industry angry at German tax plans: German industry reacted angrily to revised government plans to change income and corporation taxes next year, warning that they will deter foreign investment in Germany and force more German companies abroad. Page 2

Spanish Socialists pick leader: Spain's opposition Socialists chose parliamentary spokesman Joaquín Almunia as leader after the surprise withdrawal of former prime minister Felipe González. Page 2

GEC Alsthom to decentralise: Anglo-French power and transport engineering group GEC Alsthom is to decentralise its management in its biggest organisational change since it was founded eight years ago. Page 17

Mediobanca executive quits: Mediobanca, Italy's most influential merchant bank, was thrown into turmoil by the resignation of senior executive Gerardo Braggiotti, who had been tipped as a future chief executive. Page 17

US bank to set up in Europe: Privately owned US investment bank Oppenheimer & Co is setting up a corporate finance arm in Europe in an effort to gain business from technology companies seeking to float or merge. Page 17

China tightens share controls: China announced guidelines for international share offerings which will tighten controls over listing procedures and the injection of state assets into red chips – mainland-controlled businesses which have surged on the Hong Kong stock market this year. Page 17; Green light for HK protest, Page 4

Travel agents challenged: Europe's travel agents must become part of an international company or provide specialist services if they are to survive the growth of direct sales techniques, a report says. Page 2

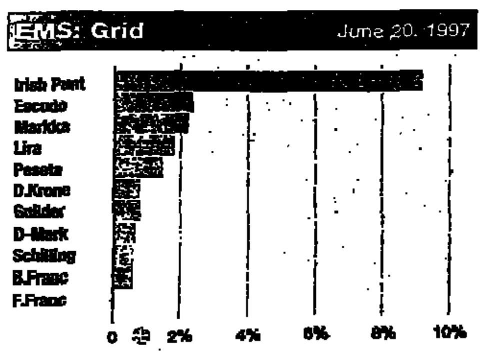
Rome pressed to cut discount rate: The Bank of Italy was under pressure to lower its official discount rate after preliminary June consumer price figures showed inflation at its lowest level for 28 years. Page 2

Benetton poised to expand: Quoted Italian clothing group Benetton is set to expand in the sportswear and equipment business while freeing the family holding company to pursue other interests. Page 19

Australian century: Australian opener Matthew Elliott scored a century in the second cricket Test against England at Lord's in London. Rain kept play to only 17.4 overs. Australia were 213 for seven at the close, 136 runs ahead with one day's play remaining.

European Monetary System: Southern European currencies remained near the top of the EMS grid last week, as belief grew in the market that Spain, Italy and Portugal would be admitted to the first round of European monetary union. The French franc stayed rooted to the bottom of the grid. Currencies, Page 25

EMS: Grid June 20, 1997



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

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Pollution row hits summit

G8 leaders angry at lack of US backing to cut greenhouse gas levels

By Bruce Clark, Robert Chote and Robert Peston in Denver

Western European leaders reacted angrily yesterday after failing to persuade the US and Japan to adopt explicit targets for the reduction of greenhouse gases, at the summit of eight heads of government in Denver, Colorado.

The European Union wanted other participants to the summit to endorse its self-imposed target to reduce carbon dioxide emissions, mainly caused by the burning of fossil fuels, to 15 per cent below their 1990 levels by 2010.

"I am frankly disappointed that not all our partners are making quantified commitments to cutting greenhouse gases," said Mr Jacques Santer, president of the European Commission. "The future of the planet is at stake."

But President Bill Clinton blocked attempts to make this commitment in the communiqué issued at the end of the summit.

Mr Clinton told European leaders they were "making life difficult" for him by seeking to tie his hands on an issue which is sensitive in domestic US politics.

However, he conceded a pledge to "meaningful, realistic and equitable targets that will result in reduction of greenhouse gas emissions by 2010". The leaders also called for better implementation of Bosnia's peace agreement, and urged the revival of the Middle East peace process.

The row over greenhouse gases will cast a shadow over the United Nations environmental conference which gets under way in New York today.

Environmental issues were the main source of contention at a summit which found broad consensus on the need to improve job creation while preventing parts of the population being excluded from the benefits of economic growth.

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President Jacques Chirac of France said US resistance reflected the fact that it was US industries that were the biggest contributors to the greenhouse effect. "The Americans are the biggest polluters", he declared.

Spurred by a recent US initiative to promote trade and investment in Africa, the leaders also promised to improve access to their markets for exporters there.

But they argued that substantial flows of development aid would still be needed to help countries in Sub-Saharan Africa meet development objectives. This agreement masked irritation on the part of the European Union that the Clinton administration was claiming to be taking the lead in helping the world's poorest continent.

The US initiative promises to improve access to US markets for countries pursuing "aggressive growth-oriented policies" – a policy which the EU criticised as excessively conditional. "We should speak less about initiatives for Africa, and act in a more concrete way," President Chirac said. EU officials pointed out that Europe buys twice as

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US president Bill Clinton greets UK prime minister Tony Blair before a dinner engagement for world leaders in Denver, in cowboy boots and casual clothing at Mr Clinton's request Reuter

Eurotunnel investors close to blocking bank plan

By Andrew Jack in Paris

Shareholders in Eurotunnel, the troubled operator of the Channel tunnel rail link, are close to gathering sufficient votes to block the restructuring plan under negotiation between the company and its creditor banks.

Three investor groups, which have strongly criticised the plan, claim to have collected enough votes to prevent the deal going through.

An extraordinary general meeting scheduled to take place tomorrow is unlikely to gather a sufficient number of the company's 730,000 shareholders to constitute a quorum. But it will pave the way for a second meeting on July 10 which is likely to prove decisive.

Based on attendance last year, the groups estimate that 57m votes would be needed to block the restructuring plan. Ms Sophie L'Hélias, a corporate governance consultant representing a Bermuda-based institution, says she has more than 40m votes in her campaign to block the plan and that she will be collecting further proxies.

Adacte, a more radical shareholder group which wants Eurotunnel to be placed in the control of a French bankruptcy court, claims to have more than 10m votes.

The more moderate Association of Eurotunnel Shareholders, led by Mr Christian Cambier, also says it has more than 10m votes. It has criticised the plan but stresses that it will not take a final decision until a vote of its 20-strong committee on July 2.

It has called for "a significant gesture" by the banks to modify the financial conditions of the plan, as well as a considerable extension of Eurotunnel's concession to operate the Channel tunnel beyond 2052.

Meanwhile, representatives of the company and its leading bankers are in the middle of a series of presentations to persuade the total of 174 creditor

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US tobacco deal faces tough scrutiny

Congress may insist on harsher terms

By Richard Tomkins in New York, Nancy Dunne in Washington and Robert Rice in London

US legislators and public health advocates have warned that the historic settlement between the tobacco industry and its foes will face tough scrutiny and, in some cases, outright opposition when it comes before Congress.

The degree of controversy over the $368bn deal could mean the tobacco industry will have to accept harsher terms than those proposed if the settlement is to pass into law.

Late on Friday the tobacco industry and anti-tobacco lawyers announced that they had signed an agreement under which tobacco manufacturers would pay $368bn over the next 25 years and accept tougher regulation in return for immunity from big legal claims.

Critics say the deal lets the industry off too lightly. The American Lung Association described it as "premature and wrong". It said: "By vindicating the industry, a deal now will tell the public that all is forgiven and tobacco use is an appropriate and safe behaviour."

Democrat legislators deeply distrust the tobacco industry and said they planned to study the fine print. "You have to have a strong hand when they [the tobacco companies] try to find the holes [in the deal]," said Senator Don Wyden, Oregon Democrat. "The history of this industry is that it always finds the holes."

Democrats were also concerned that the deal placed no limits on the marketing of cigarettes overseas. Senator Wyden said: "The tobacco industry negotiators made it very clear that they want to finance the settlement in the US by addicting millions of youngsters overseas to tobacco products. I want to keep them from exporting our problems."

Earlier this month lawyers from across Europe met in Brussels under the auspices of European cancer societies to co-ordinate legal action against the tobacco industry throughout the European Union.

Representatives from the meeting have been invited to Beijing in August to talk to lawyers in the developing world. Contacts have also been established with lawyers in Malaysia, Australia and New Zealand.

Dr David Kessler, a former commissioner of the Food and Drug Administration who will help shape White House and Democratic sentiment towards a deal, said he had "very serious concerns" that the settlement would impede the ability of the FDA to regulate tobacco products. Dr Kessler said he was in favour of "a resolution", but warned that the deal set up "a lot of hurdles for the FDA" by requiring the agency to prove that eliminating nicotine would not create a black market for cigarettes.

After a court case in South Carolina approved FDA regulation of nicotine, "this seems to be a step backward", he said.

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BSkyB agrees deal to quit UK digital TV partnership

By Raymond Snoddy in London

British Sky Broadcasting has agreed compensation with its partners in British Digital Broadcasting in return for pulling out of the consortium following pressure from the Independent Television Commission.

There are growing signs that BDB is now favourite to win the digital terrestrial television franchise in the UK.

Last week the ITC, the UK's regulatory body for commercial television, made clear it wanted BSkyB to pull out. It was concerned BSkyB might come to dominate both satellite and terrestrial digital broadcasting in the UK.

BSkyB will receive £75m for its one-third stake in BDB, payable if the consortium, now owned by Carlton Communications and Granada, wins three commercial licences on offer.

The satellite TV venture, 40 per cent owned by Mr Rupert Murdoch's News Corporation, has also agreed an enhanced programme supply deal with BDB. This will include Sky Sports and Sky Movies.

No formal decision has been taken by the ITC on whether to award the terrestrial licences to BDB or Digital Television Network, owned by NTL, the cable and broadcasting services group.

However, the events of the past week suggest the ITC is now leaning towards BDB. One possible factor was the fact that the ITC intervened at all to make the BDB consortium more "acceptable" on competition grounds.

More significantly, the ITC has insisted that BSkyB channels should continue to be available to BDB even though BSkyB has to pull out.

Meanwhile, in an interview last week Mr Murdoch admitted that the successful launch of digital TV in the UK – satellite and terrestrial – was vital to BSkyB's prospects.

As BSkyB moves in August to its new £160m a year, four-year contract to show English Premier League soccer, Mr Murdoch accepted that the lift he hopes digital will bring is needed to pay for such expensive sports deals.

"There is a big job with digital. We have to get it across. We have to expand it. We have to use it as a means of getting many, many, many more customers because of the extra money we will now be paying for sporting rights," Mr Murdoch said.

"We are going to have to get our prices up to some extent and get more [subscribers] in order to be able to hold our margins," he added.

The pressure explains why BSkyB was interested in trying to spread its subscriber base more widely by joining Carlton Communications and he Granada Group in a bid for digital terrestrial frequencies.

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German companies warn that new measures could increase pressures to shift jobs abroad

Bonn tax plans assailed by industry

By Peter Norman in Bonn

German industry has reacted with fury to revised government plans to change income and corporation taxes next year, warning that they will increase barriers to foreign investment in Germany and force more German companies and jobs abroad.

In an unusually forthright statement, the Federation of German Industry (BDI) said it "noted with consternation" that Chancellor Helmut Kohl's coalition had ignored its advice and put forward plans for "massive" and "unacceptable" increases in taxes on industry next year.

Mr Hans-Olaf Henkel, BDI president, said the amended tax plans, which on Thursday will be given their second and third readings in the Bundestag, the lower house of parliament, were a "scandal".

Mr Jürgen Strube, chief executive of BASF, the chemical group, told the magazine Der Spiegel that the proposals "strengthened the impression that the coalition is losing control".

The angry industrial reaction adds to uncertainties surrounding the 1998 tax bill and government plans for more sweeping tax cuts and curtailed tax privileges in 1999.

While both bills should be passed by the Bundestag this week, they will almost certainly be rejected on July 4 by the Bundesrat, the opposition-controlled second chamber representing the states. A conciliation committee of both houses of parliament will then have to hammer out a compromise.

Industry's outcry comes as the government's reputation for economic competence is at a low ebb, reflecting its recent row with the Bundesbank over Germany's gold reserves and continued high unemployment of 4.3m.

It follows last Friday's conclusion of the committee stage of the 1998 tax reform bill, in which the coalition partners decided that businesses should meet nearly all the DM7bn ($4bn) costs of next year's promised reduction from 7.5 per cent to 5.5 per cent in the "solidarity surcharge", which is added to income and corporation tax bills to help finance eastern Germany.

The revised plans will produce a total net reduction of DM1.2bn in taxes next year, instead of the originally planned DM6.5bn.

Although top rates for income tax on business profits and corporation tax on retained earnings will be cut to 40 per cent from 47 per cent and 45 per cent respectively, businesses will be hit by less generous depreciation rules and plans to curtail sharply their scope for setting losses against taxation.

Utilities will also be forced to pay tax on part of DM54bn of reserves set aside to cover nuclear risks.

The BDI said the plans to limit the ability of companies to carry forward losses and, in emergencies, to set losses against profits made in earlier years were "arbitrary" and "especially serious".

Socialists turn to González loyalist

By David White in Madrid

Joaquín Almunia raises his arms exultantly after his election as the new leader of the opposition Socialist party in Madrid yesterday AP

Spain's opposition Socialists resolved a hectic search for a new leader yesterday by choosing Mr Joaquín Almunia, their parliamentary spokesman and one of the most loyal associates of Mr Felipe González, the former prime minister.

As the party began to come to terms with the shock of Mr González's withdrawal as leader, announced on Friday, his substitute heralded the start of a new era and called on other political forces and trade unions to join "the common cause of the left".

Closing a tumultuous three-day congress, Mr Almunia set his sights on rebuilding "a progressive social majority", and made a direct appeal to moderate forces within the rival Communist-led United Left. "We are ready to start talking right now," he said.

The bid for a broad left-wing platform was reflected in economic proposals, some of which clearly echoed the French Socialists' recent successful campaign – notably a reduction in the working week from 40 to 35 hours.

However, the resolutions approved at the congress made clear a 35-hour week should be introduced gradually and not be allowed to damage competitiveness and productivity. They also strongly reaffirmed the party's commitment to European monetary union, warning that delay or failure could have dire consequences.

After a series of stormy meetings and a compromise pact with regional Socialist chiefs, the party approved a new 33-member executive committee, including only 15 survivors from the previous one.

Mr González's surprise decision pulled the rug out from hardliners, who had been preparing for a trial of strength to maintain their figurehead, Mr Alfonso Guerra, as the party's number two.

Mr Guerra, obliged to back down, dropped out of the party hierarchy along with his main allies.

A quarter of congress delegates cast blank votes in the ballot for the new executive committee, which included only two of Mr Guerra's supporters, both from the north-west region of Galicia.

Mr Almunia, 49, a Bilbao-born lawyer and economist, is a former union adviser who became the youngest member of Mr González's first cabinet in 1982, as minister of labour and later of public administration.

He is regarded as solid, capable and sociable, with experience in the party machine, as well as in government and parliament.

However, his appointment is widely seen as an interim solution, with some at the congress describing Mr Almunia as "not the heir, but the executor of the will".

Depending on how soon Spain's next general election is called – it is due in the year 2000 at the latest – the party could either turn back to Mr González to head its campaign, or to Mr Javier Solana, whose term as Nato secretary-general ends in 1999.

Mr González, who has cut himself off from any official party post, but has emerged from the congress with his status enhanced, pointedly refused to rule out standing again for prime minister.

But this might be interpreted simply as a way of taunting Spain's centre-right government, for whom he remains for the time being the most formidable opponent.

The desire to keep electoral options open was seen as a crucial factor behind Mr Almunia's appointment, after a rival movement built up behind Mr Josep Borrell, former public works minister and economic leftwinger.

It was Mr Borrell who provided the sharpest comment on what Mr González's departure after 23 years as leader meant for Spanish socialism: "Now we don't have the excuse of waiting to see what Mummy and Daddy think. Daddy's gone, and now we have to prove we're grown-up."

Monks reject Schengen accord

By Kerin Hope in Thessaloniki

A community of Orthodox monks in northern Greece emerged last weekend as one of the more improbable groups opposed to the European Union's Schengen accord, which abolishes internal EU border controls.

The monks of Mount Athos fear that Schengen will restrict their traditional right to offer sanctuary. They have signalled their anger by refusing to lend icons, illuminated manuscripts and embroidered vestments from five monasteries to an exhibition at Thessaloniki.

Even monasteries which contributed items indicated disapproval of the Greek parliament's ratification of Schengen by sending only junior clerics to attend the exhibition's opening festivities.

Despite reassurances from Mr Costas Simitis, the Socialist prime minister, that the "special characteristics of Mount Athos" will be protected – presumably including its ban on women and almost all female animals – the monks are standing firm.

Mount Athos, overlooking the northern Aegean, is an autonomous Orthodox republic which has seen its monastic population swell from 1,500 to more than 4,000 in the past six years. Many are novices inspired by the religious revival that followed the demise of communism in the former Soviet Union.

Last year, a group of veterans from the Bosnian war took refuge in Saint Hilarion, a Serbian foundation.

The Greek government would be deeply embarrassed if the republic became a haven for alleged war criminals and is pressuring monasteries to strengthen ties with the outside world.

Direct sales challenge to travel agents

By Scheherazade Daneshkhu, Leisure Industries Correspondent

Europe's travel agents must either become part of a large international company or provide specialist services if they are to survive the growth of direct sales techniques, according to a recently published report*.

Technological advances will make it easier for package-holiday suppliers to bypass travel agents and for airlines, ferry companies and hotels to sell direct to consumers, according to Travel & Tourism Intelligence, formerly the travel consulting division of the Economist Intelligence Unit.

Buying on the internet and through interactive kiosks – which allow people to look up holiday brochures using touch screens – will increase in the leisure market. But the greatest threat will emerge once the internet migrates from the home computer to the television.

Consumers will then be able to browse through "live" catalogues from their armchair. Once "the quality and speed of interactive advice is better than the information supplied by the travel agent, the counter clerk will be under threat", according to the report.

The speed of the threat depends on how quickly the cost of the technology falls and the extent to which consumer resistance to buying direct is overcome.

Travel agents also see a challenge in the introduction of a European single currency. While the euro will lead to savings in travel companies' foreign exchange bills, those which derive a large proportion of their income from foreign currency sales, such as Thomas Cook, will have to rethink their strategy, according to the study. The risks of European monetary union include failing to make a smooth technological changeover to the euro and misjudging pricing in euros.

Further consolidation in the European business travel market will be inevitable as companies compete to obtain the best return on investments in technology.

The largest European business travel agents – American Express, Hogg Robinson and Carlson-Wagonlit – are already dominant in northern Europe and Germany. The prize for Europe-wide coverage will go to companies which achieve a significant market share in the smaller markets of Spain, France and Italy.

The trend towards segmentation in the business travel market is also likely to intensify, according to the report.

**The European Travel Agency Industry, Travel & Tourism Intelligence, 51 Doughty Street, London WC1N 2LS, £425/$690*

EUROPEAN NEWS DIGEST

Pressure on Bank of Italy

Pressure is mounting on the Bank of Italy to lower its official discount rate after preliminary June consumer price figures showed inflation at its lowest level in 28 years.

Consumer price rises in five large Italian cities – Milan, Florence, Genoa, Trieste and Bari – averaged 1.5 per cent this month compared with 1.6 per cent in May.

Although other important cities are due to report inflation figures today, the figures published last weekend have rekindled the growing controversy over the Bank of Italy's tight monetary policy.

Questioned at the G7 summit in Denver Mr Romano Prodi, the Italian prime minister, said that the Italian discount rate was now "enormously high". While he did not want to give "lessons" to Mr Antonio Fazio, the Bank of Italy's governor, Mr Prodi noted that "central banks know that every reduction is good for the country."

Of all European central bank governors, Mr Fazio has persisted longest with a tight monetary policy. The official discount rate has stood at 6.75 per cent since January 22, when the central bank cut it from 7.5 per cent. *Paul Betts, Milan*

Minister throws in towel

A rare outburst of moral outrage in Russia has led to Mr Valentin Kovalyov stepping down as justice minister after a newspaper published allegations that he had cavorted with naked women in a sauna frequented by an infamous mafia gang.

The Top Secret newspaper last week printed a series of grainy photographs, taken in September 1995, showing Mr Kovalyov in a compromising position. Mr Kovalyov, appointed justice minister in January 1995, has claimed the photographs are a fabrication but has stepped down to clear his name.

Mr Yuri Luzhkov, the pugnacious mayor of Moscow, led the attack against Mr Kovalyov, saying it was "impermissible that someone charged with such a high post should indulge in immoral acts".

Mr Victor Chernomyrdin, prime minister, demanded that Mr Kovalyov should answer the allegations, but said that he should be given a chance to exonerate himself. "Kovalyov denies everything. He is a lawyer. He knows how to defend himself. Let him prove it is not true," said Mr Chernomyrdin. *John Thornhill, Moscow*

Romanian privatisation move

In a move to accelerate its privatisation programme, Romania's government has authorised the State Property Fund (SOF) to sell its majority stake in 1,000 companies on the Bucharest stock exchange and the over-the-counter market (Rasdaq). Mr Ulm Spineanu, minister for reforms, said that the government expected SOF to complete the process by the end of the year.

The new reformist government has sold more than 700 state companies this year. Most of these, however, have been small shops and workshops.

If put into effect, the number of companies to be offered via the stock exchange and Rasdaq will be very much higher than the 220 previously planned, and will significantly enhance the activity of both of these institutions.

The government may be responding to strong criticism from representatives of the stock exchange and Rasdaq that they were not being given a sufficient role in the privatisation process. In particular, they disliked a decision to offer some companies via the London and Thessaloniki stock exchanges rather than in Bucharest, for reasons that seemed to have more to do with foreign policy than business sense. *Anatol Lieven, Bucharest*

Yilmaz boosted by defection

Mr Mesut Yilmaz, the secular conservative leader who hopes to be Turkey's next prime minister, received a boost yesterday by the defection to his cause of a politician from the rival centre-right True Path party.

Mr Yilmaz, who has pledged to keep Turkey's resurgent Islamists out of office, can now count on a maximum of 266 votes in the 550-seat parliament, and is confident of further defections from among anti-Islamist dissidents in Mrs Tansu Çiller's True Path.

"We now have a chance to end the crisis which the [former Islamist-led] government has brought this country into," Mr Yilmaz, leader of the Motherland Party, told supporters at a rally in Istanbul.

He has given himself until the end of this month to secure enough backing for a right-left alliance that could win a confidence vote in parliament. *Reuter, Istanbul*

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Czech business feels high interest rate heat

Czech company bosses hoping for a fall in painfully high interest rates have little to comfort them, despite evidence last week that the economic slowdown in the first quarter was less acute than had been feared.

Gross domestic product expanded by 1.5 per cent between January and March, compared with a rise of 4.7 per cent in the previous quarter and 4.4 per cent for all of 1996.

But hard-pressed executives, who complain that high interest rates imposed to protect the koruna are crippling business, said things would get worse before they got better.

The construction sector, heavily dependent on state contracts and largely immune to the recent depreciation of the koruna, is expected to be hardest hit by the reduction in state spending announced in the past two months.

The Union of Construction Entrepreneurs said that 40 per cent of building firms were facing losses, and predicted a big shake-out in the sector.

Industry executives agreed. Mr Ivan Mareš, general director of cement-maker Lafarge Beton, said that only big companies would be able to ride out a difficult period. "Medium-sized firms have fallen into serious financial problems, and small firms are almost killed. And it may get worse, because competition for available contracts will be that much stronger," he said.

Other sectors that could feel the heat are steel, textiles, engineering and pulp and paper, which are often undercapitalised and have high debts. There is concern that the enormous cost of borrowings at companies with limited cash flow will force them to resort to what Czech businesses often do at the first sign of trouble – stop paying their bills.

"It's a really tough time for companies now, especially those relying on domestic orders," said a western banker in Prague.

Even the koruna's depreciation of about 10 per cent against a combined D-Mark/US dollar peg after it was floated last month has not offered much comfort to exporters, to whom the Czech central bank and the government are looking to revive growth. The currency edged higher again last week, protected by the high interest rates.

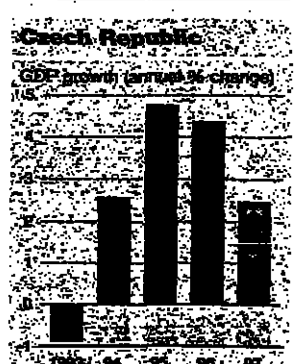
The engine for the first quarter's modest growth was consumer spending rather than corporate activity. Though there is evidence that exporters are beginning to gain ground – exports soared 23 per cent in April after months of stagnation – they played second fiddle to high-spending Czech consumers in pushing the economy ahead at the start of the year.

Until there is a sustained swing away from spending towards export-led growth, the central bank is considered unlikely to reduce interest rates as it concentrates on maintaining currency stability.

Short-term borrowing costs for companies are roughly double what they were six weeks ago, though they have fallen back from their peak: overnight rates touched 500 per cent before the koruna was floated.

The central bank is cautiously dismantling technical defences around the koruna, but high interest rates are a key prop as it waits for a tightening of fiscal policy through the government's pledge to cut up to 8 per cent from this year's budget.

"The central bank wants to see evidence that demand is weakening, and then it will start easing" monetary policy, said Mr Boris Gomez, economist at ING Barings in Prague. "A significant easing is still not in the picture."



The government has hinted it would like to see the central bank decide soon on a reduction. But any fall is likely to be gradual.

Vincent Boland

US model fails to win admirers

By Gerard Baker in Denver

US President Bill Clinton clearly relished persuading most of the other summit leaders to join him in donning cowboy boots for the western-style dinner and musical extravaganza in Denver on Saturday night.

But any hopes the US might have had that European and Japanese leaders would leave the summit proposing to emulate the highly successful American economic model were disappointed.

Throughout the weekend the echoing US theme – barely suppressed triumphalism about its economic performance in the last few years – clearly irritated the other heads of government and finance ministers.

Though the final summit statement had warm words for US achievements – steady, robust growth, low unemployment and low inflation – there was little enthusiasm for the US model of economic individualism based on flexible labour markets, an accommodating regulatory approach, and a small and diminishing public sector with minimum social protection.

US officials denied they had been seeking a formal endorsement of their system. But the tone of their remarks before the summit suggested US leaders had been expecting a little more recognition that the late 1990s had proved the ultimate global success of American capitalism.

As world leaders arrived last week, Mr Clinton said other countries could learn not just from the traditional features of the "Anglo-Saxon" approach, but also from what his supporters call "Clintonomics" – reducing the federal budget deficit, opening markets to trade, and investing in education and training.

One of the principal architects of these policies, Mr Larry Summers, deputy Treasury secretary, was characteristically direct. "It is little wonder that other nations are looking to the American example for economic policy inspiration in much the same way that Americans recently looked abroad," he wrote on the eve of the summit.

One European official described the French delegation as "miffed" at the Americans' effusive self-praise and the harsh words of some in the US for the rigidities of French and European markets that have produced mass unemployment.

Mr Jacques Santer, president of the European Commission, told the summit that while he congratulated the US on its achievements, Europe had its own successful model based on "solidarity and cohesion".The view of many of the non-US participants was that the US economic performance of the last few years merely brought into sharp focus both the positive and negative aspects of the US model. The US has not yet properly dealt with the downside of its system – inequalities of income and wealth, poor quality public education and health services, and the social problems it produces. In Denver itself widespread drug abuse and serious crime are as much a part of the fabric as low unemployment and high-tech businesses.

"They keep telling us how successful their system is," said one official of a European government. "Then they remind us not to stray too far from our hotel at night."

Russia turns away from apocalyptic visions

By Bruce Clark in Denver

Sir Leon Brittan, vice-president of the European Commission, had a neat formula to describe the role of Russia at the Denver meeting: distinctive but not disruptive.

President Boris Yeltsin, whose presence in Denver has turned the Group of Seven into the summit of the eight, has certainly displayed flashes of his distinctive style during his visit to the Rocky Mountains. He surprised Mr Ryutaro Hashimoto, the Japanese prime minister, by proposing a "strategic partnership" between Moscow and Tokyo – complete with a "hot line" enabling them to communicate during crises.

Mr Hashimoto suggested it might be easier to swap telephone numbers. He also parried an invitation to visit Moscow this year with an ingenious alternative: the two of them should meet for an "informal weekend" in Siberia.

But Russia's contribution had none of the apocalyptic flavour which marked its previous visits to the G7.

At the Munich summit of 1992 and in Tokyo a year later, Mr Yeltsin pleaded for financial aid to save his country from the forces of darkness and reaction. In Naples in 1994, he threatened to keep Russian troops in the Baltic states indefinitely: in Halifax, Canada, he held forth passionately on a hostage crisis unfolding in southern Russia; at the time of last year's Lyons summit, he was too busy fighting for his political life – and physical health – to attend at all.

This year, by contrast, Russian officials have been basking in the success of their recent eurobond issue and thrashing out the terms on which their country might be admitted to the World Trade Organisation. Sir Leon, following up on a visit to Moscow a few days ago, has assured Russia it will be deemed a market economy by the EU from the moment it joins the WTO. This will mitigate Russia's exposure to EU anti-dumping action.

The EU expects Russia to start winning its WTO spurs by making an offer on tariff reduction, with a binding maximum rate, next month, and a proposal to free up services, such as telecoms, transport, construction and banking, in the autumn.

The EU wants to see greater transparency in Russia's farm subsidies and customs procedures – as well as clearer rules on food labelling and alcohol licensing.

Worthy as these endeavours undoubtedly are, they are hardly different in any obvious way from the issues that the US and the EU discuss with all their other trading partners. Intimations of global catastrophe were certainly present in Denver – in the eight leaders' loosely worded pledges to work harder on nuclear safety, infectious diseases, the regulation of human cloning, deforestation and transnational crime. But Russia, as part of its evolution into a more or less normal member of the international community, seems at least temporarily to have lost its monopoly on the apocalypse.

One more for dinner: Yeltsin (third from left), Tony Blair, Ryutaro Hashimoto, Helmut Kohl (partially obscured), Bill Clinton, Jacques Chirac, Jean Chretien and Roman Prodi retire for a celebratory meal on the last night of the summit Reuter

The US and Britain won support yesterday in Denver for a strongly-worded appeal to China to respect civil liberties after it regains control of Hong Kong, Bruce Clark writes.

The eight nations urged Beijing to observe its 1984 accord with the UK on preserving Hong Kong's way of life. Mr Robin Cook, the UK foreign secretary, said the statement meant that Britain could count on international support if there was any threat to Hong Kong's freedom and prosperity.

The eight also warned the parties to the Dayton agreement on peace in Bosnia they would forfeit reconstruction aid unless they fulfilled the terms of the settlement, which include the surrender of war criminals.

Mr Tony Blair, the UK prime minister, urged the US – which has pledged to withdraw its troops from Bosnia in mid-1998 – not to abandon the war zone in former Yugoslavia: "We went into this for a particular reason, and if we got out and simply left people to fight again it would be a disaster."

Regulators to work together

By Robert Chote, Economics Editor

Finance ministers from the Group of Seven leading industrial countries backed legal changes to improve co-ordination between financial regulators at the weekend, while committing themselves to continued structural reforms and fiscal belt-tightening.

In a report to heads of government at the Denver summit, the finance ministers said they would support changes to laws and regulations that would make it easier for supervisors of globally active financial institutions to exchange information on a confidential basis.

A joint forum of international regulatory bodies has agreed that a single co-ordinating supervisor could be appointed to ease the exchange of information when multinational institutions get into trouble. But turf wars between domestic regulators in the US are hampering efforts to reach agreement on the precise role of these co-ordinators, finance ministry officials warned.

The finance ministers are studying the legal and practical barriers which often make it difficult for national regulators to share information with their counterparts in other countries.

In some cases, for example, information cannot be shared with other regulators unless it is made public.

But the G7 wants to improve co-ordination while maintaining confidentiality.

The statement released after the finance ministers' meeting welcomed the performance of the world economy over the past year, noting that growth was stable, inflation low and budget deficits falling. For the first time it also included prescriptions for policy in individual countries.

The US was urged to remain vigilant against a resurgence of inflation, to balance its budget, and to promote savings.

Japan was pressed to continue deregulation and to keep its trade surplus in check by boosting domestic demand. Germany, France and Italy were all urged to undertake structural reforms to boost job creation, while continuing to cut budget deficits.

The UK "must keep inflation pressures under control and maintain budget deficit reduction while strengthening the economy's long-term growth potential, particularly through education and welfare reform", the statement said.

Mr Gordon Brown, the chancellor of the exchequer, said this endorsed his existing agenda.

The finance ministers also tried to inject new urgency into the troubled search for an agreement on the expansion of the International Monetary Fund's capital base and overdraft facility for central banks. They called for "substantial agreement" by the time of the IMF's annual meeting in September.

Thailand seeks boost to foreign funds

By Ted Bardacke
in Bangkok

Thailand's new finance minister, Mr Thanong Bidaya, said at the weekend his priority was to ensure the country maintained a high enough level of capital inflows to pay for its rapidly maturing foreign debt.

At the end of May, Thailand had $85bn in foreign debt. Of this $66bn is owed by the private sector, mostly borrowed through facilities which have maturities of 366 days or less.

With Thailand running a balance of payments deficit so far this year, analysts have expressed concern that as these debts come due, the country will be forced to pay for them with foreign reserves, thus hurting its ability to defend the value of its currency.

But Mr Thanong declined to say how he expected to boost capital inflows, other than to say he would travel overseas to talk to investors.

He said he needed "a few days" to set a policy agenda on the two key issues facing financial authorities: how to push through a controlled clean-up of the struggling financial system and how to engineer a more flexible exchange rate system so that interest rates can be lowered.

Some reports in the local press suggested one of the ways to attract more foreign capital and help ailing financial institutions being considered by Mr Thanong and the central bank was to raise foreign ownership limits on financial institutions to 49 per cent, up from the current 25 per cent.

Many analysts also believe that the currency basket to which the baht is pegged will be altered very soon, giving more weight to the Japanese yen at the expense of the US dollar, thus allowing for more flexibility.

Mr Supachai Panitchpakdi, who is a prominent opposition economist and former central banker and who was also Mr Thanong's boss at Thai Military Bank in the late 1980s, called for such a move at the weekend.

But while calling Mr Thanong a competent manager, many financial industry executives continue to question his ability to push through painful reforms to the financial system, given his lack of political clout and the fact that for the past four years he led a commercial bank, Thai Military, into a position where it is widely regarded as the most troubled and least profitable all the main banks in the country.

The prime minister, GeneralChavalit Yongchaiyudh, recognised Mr Thanong's vulnerability, saying that he would remain in overall charge of the economy and continue to listen to a number of different advisory teams.

Bank's appeal could delay sell-off

By Ken Warn
in Buenos Aires

The timetable for the privatisation of Argentina's post office, Encotesa, has been thrown into doubt after international investment bank ING Barings claimed it had been unfairly excluded from the bidding.

ING Barings said it would lodge an appeal with the privatisation commission by Wednesday's deadline and would take its case to a higher court if necessary. An appeal threatens to delay the auction of Encotesa, planned for July 28.

"I cannot believe our exclusion is anything other than an error by one of the Argentine technical guys," Mr Steve Darch, ING's general manager in Buenos Aires, said recently. "We don't want to complicate this process, but if our appeal is not accepted there could be something of an international scandal."

Encotesa, which has recorded deficits of about $40m in each of its last two financial years, has only about 40 per cent of the Argentine postal market and has become a by-word for inefficiency.

However, local and international investors are attracted by the prospect of rising postal volumes and of using some its 6,000-plus branches nationwide as sales points for financial and other services.

One of the three consortia still in the running after last week's decision includes Banco de Galicia, Argentina's biggest private sector bank, which has had technical advice from the British Post Office.

Terms of the sale state each bidder must have technical advice from a member of the Universal Postal Union, the Berne-based organisation grouping the world's main postal operators, to ensure future efficient running of Encotesa.

ING Barings' technical adviser is Nepostel, a postal consultancy set up by KPN Holding of the Netherlands, which operates the privatised Dutch postal system through its subsidiary PTT Post. Argentine officials have said Nepostel did not qualify as a UPU member.

OBITUARY: FIDEL VELAZQUEZ

Mexican labour's unassailable boss

Fidel Velázquez, the undisputed leader of the Mexican Workers Confederation (CTM) for more than half a century, has died at the age of 97.

His death on Saturday has robbed the ruling Institutional Revolutionary party (PRI) of a towering moral figure in the midst of an intense election campaign. Opinion polls indicate the July 6 vote could see the PRI lose its majority in the lower house of Congress for the first time in 68 years.

The loss of "Don Fidel", who left no heir apparent at the CTM, is also expected to stir some deep soul-searching within the official labour movement. The 11,000 affiliated trade unions must now decide who will succeed Don Fidel – a taboo question during his lifetime – while avoiding internecine warfare.

Even if unity is maintained during the leadership struggle, the CTM faces other, equally divisive questions. Should the confederation, which claims 6m members, remain affiliated to the ruling party and continue to support PRI governments responsible for unpopular privatisations and the erosion of real incomes? And how might it stem the growing number of defections to rival federations?

As a temporary expedient, Mr Leonardo Rodriguez Alcaine, the 78-year-old electricians' leader, has assumed the day-to-day running of the confederation, although it is not known how long he will remain at the helm.

Were Don Fidel still alive, he would no doubt have been nominated, unopposed, for another eight-year term. He was the great survivor of Mexican politics.

After taking control of the official labour movement in 1941 (apart from a brief interlude between 1947 and 1950 which he spent in Congress), Don Fidel built an unassailable position which defied the tenets of Mexico's political system. While fear of dictatorships led post-revolutionary Mexico to limit presidential terms to six years and ban re-election, Don Fidel carved a fiefdom for himself that flouted those rules even as he became a fundamental pillar of the regime.

Don Fidel faithfully delivered the trade union vote for the PRI in the election of nine Mexican presidents, and they repaid the favour with quotas for labour representatives in Congress, a large social security system, subsidised food in the cities, protective labour laws, and revolutionary rhetoric on Labour Day.

After the 1994 peso devaluation, which plunged Mexico into a deep recession, he cancelled the traditional May Day parade for three consecutive years to spare President Ernesto Zedillo the full blast of labour discontent.

Tens of thousands of rebel trade unionists, however, have marched on Labour Day in defiance of Don Fidel's wishes.

The independents, led by Mr Francisco Hernández Juárez of the telephone workers' union, last year launched a "Forum for a New Trade Unionism" which was joined by some of the most strategic trade unions, including teachers, pilots, social security employees and some unions in the electrical and vehicle assembly industry.

The Forum wants a new Labour Code to emancipate the labour movement. It advocates freedom of association against the present practice of the closed shop, and seeks to emphasise the importance of training, performance-related pay and labour productivity.

Personal rivalries have so far prevented Forum leaders from creating a new labour confederation, but whatever the outcome, the old style of labour relations look set to be buried with Don Fidel.

'Sludge' and 'dreams' at green talks

Five years after pledging at the Rio de Janeiro Earth Summit to pursue environmentally sustainable development, world leaders meet in New York today to review progress. It could be a short meeting.

The achievements, said Mr Derek Osborn, chairman of the publicly funded European Environment Agency, can be summed up as "Slightly Less Unsustainable Development, Genuflecting to the Environment" – "sludge" for short.

Officials organising today's special session at the UN General Assembly point to a greater awareness of environmental problems but few of the specific commitments made at Rio have been put into practice.

Most glaringly, industrialised countries have failed to increase aid – as promised in Rio – to help developing countries fight poverty. The by-products of poverty, such as rapid population growth, inefficient use of natural resources and unsafe water supplies, all have a significant bearing on the environment.

Little progress has been made either in protecting biological diversity and in fighting desertification under conventions set up at Rio.

Deforestation has actually accelerated, though some private sector companies have made a start in promoting sustainable forestry.

Indeed, many environmental experts think that business must step into areas where governments have failed.

Greater involvement in sustainable development by non-governmental organisations, including private companies, is widely regarded as the biggest achievement since Rio.

Local authorities and businesses in 2,000 communities have drawn up action plans under the Agenda 21 strategy launched at Rio for sustainable development at grassroots level.

While official aid to developing countries fell last year by 2 per cent to $44bn, private capital increased by a third to $243.8bn, according to the World Bank.

"Governments are in disarray and fragmented on a lot of these issues," said Ms Eileen Claussen, US assistant secretary of state for international environmental affairs. "The private sector has the ability to make change and to influence governments, if only they would pick up on this." Governments, though, must set a "framework" of incentives, she said.

Mr Stephan Schmidheiny, the Swiss billionaire and chief theoretician for green business, said the main task of governments was to demolish "the wall of subsidies and tax regimes which promote the wasteful use of resources".

According to the World Bank, two-thirds of the subsidies that cause environmental damage are doled out by the developed world.

German coal subsidies, for example, accounted for 70 per cent of the $9.5bn given to energy producers by governments in the Organisation for Economic Co-operation and Development.

Elimination of OECD coal producer subsidies alone would reduce global emissions of carbon dioxide, one of the greenhouse gases associated with climate change, by 1.5 per cent.

Mr Ernst von Weizsäcker, a German environmental expert, argued that only a fourfold increase in efficiency in the way raw materials are used can deliver sustainable development.

Governments, undeterred by past failures, will in New York launch a grandiose "global action plan" to provide safe drinking water for the one-fifth of the world's population that lacks it.

The most important part of the draft proposals – given the lessons of the past five years – is the insistence on creating the conditions to encourage private sector investment in water supply.

Private water operators are already moving into medium-income developing countries, such as Argentina, to take over the running of inefficient water distribution and supply networks.

The best chance that governments have of restoring their besmirched reputation is to focus on providing more powerful incentives for business and other non-governmental organisations.

In the process, this could help deliver what Mr Osborn calls "Development Recording Environmental and Material Success" – or "dreams".

Leyla Boulton

BLAIR BACKS POLLUTION CURBS

Mr Tony Blair, the UK prime minister, will today put environmental protection at the heart of his government's agenda with a speech criticising the US and other industrial countries for reluctance to sign up to new targets for cutting emissions of carbon dioxide, Robert Peston in New York writes.

He will say developed countries' governments must take a lead in persuading their citizens to change their lifestyles and businesses to alter their practices, if damaging increases in global temperatures and in sea levels are to be prevented.

His speech to the UN special summit will set a broad framework for future tax and regulatory changes aimed at protecting the environment.

Mr Blair will say that UK government initiatives will aim at promoting renewable energy sources, increasing efficiency in energy consumption and creating an environmentally focused transport policy. This is expected to be translated in the forthcoming budget into a cut in value-added tax on insulation materials and a possible increase in tax on company cars.

He will confirm the UK commitment to reducing carbon dioxide emissions by 20 per cent compared with their 1990 level by 2010. This is a more challenging goal than the European Union target of a 15 per cent cut by 2010. Responsibility for setting new carbon dioxide targets must fall on the leading industrialised countries, since these are the main producers of greenhouse gases, Mr Blair will say, apparently rejecting the US argument that any protocol on emissions must include developing countries.

Truce may end in salmon war

By Scott Morrison
in Vancouver

The US and Canada have failed once again to set fishing quotas for Pacific northwest salmon, raising the possibility of punitive measures imposed by the Canadian side.

After three days of talks, negotiators for the two countries strongly expressed deep disappointment that their counterparts were unwilling to make concessions to reach an agreement. While they said they could resume discussions early this week, it appeared there was little point in continuing talks.

"There is still a considerable gap between our two positions," said Mr Yves Fortier, Canada's chief negotiator. Mr Fortier complained that the US position had hardly changed since the last round of discussions broke down a month ago.

The two sides said they were awaiting instructions from their respective governments on how to proceed, less than one week before the first contentious salmon run is due to reach coastal waters near Vancouver.

US and Canadian commercial fishing fleets intercept salmon native to the other country, but Canada claims the balance weighs heavily in the favour of the US. The two nations have relied on one-year, patchwork accords to prevent overfishing since 1992 and Canada is concerned the US may this week start fishing Canadian-bound salmon without established quotas.

Mr Fortier, who had been seeking a long-term agreement to divide the C$500m (US$360m) salmon fisheries, blamed the US side for failing to make "reasonable and equitable sacrifices" to conserve stocks and balance the harvest.

A British Columbia official involved in the talks questioned US good faith at the bargaining table. The US team said Canadian concessions were not substantive enough to safeguard the survival of threatened US salmon stocks.

The failure of the talks prompted a harsh response from the British Columbia premier, Mr Glen Clark, the most vocal critic of the US position. Mr Clark said Canada should take "strong actions to demonstrate we are prepared to protect our natural resources".

INTERNATIONAL NEWS DIGEST

Green light for HK protest

Mr Tung Chee-hwa, Hong Kong's future leader, has signalled that the Democratic Party will be able to hold a planned demonstration in the territory's Legislative Council building shortly after the transfer of sovereignty next week. Responding to the Democrats' plan to speak against the post-colonial legislature from the balcony of the existing Legislative Council, Mr Tung said there would be no problem if the protest was peaceful. "Nothing will spoil the happiness of the occasion," he said, referring to the handover. "There will be people who want to express their views in different ways, through demonstrations and so on. So long as they are lawful, so long as they are peaceful, they will be fine."

Mr Martin Lee, the Democrats leader, also played down the prospect of a confrontation. "We want to do everything peacefully," he said. "I don't think they will block us." He said that party members would be in place in the building before midnight, and that he would use a ladder if necessary to join them once the official midnight handover ceremonies had been completed. The Democrats strongly oppose establishment of the Beijing-backed Provisional Legislature, which will replace the existing elected chamber.

They have also condemned new laws which tighten police control over demonstrations which are due to be voted into law when the provisional legislature holds its first meeting on July 1. *John Ridding, Hong Kong*

Emerging Markets: Hong Kong, Page 24

Macao gaming accord

Portugal and China have reached an accord on a revision on Macao's gambling monopoly which leaves Dr Stanley Ho in charge of the territory's lucrative casino franchise through its return to China in 1999. The accord, announced at the weekend after two days of talks in Lisbon, resolves a protracted Sino-Portuguese dispute over funding for a Lisbon-based foundation. It also gives the Macao government an increased slice of the territory's gambling revenues. Betting taxes account for almost half of government revenues in Macao, underlining the importance of the industry to the local economy. Under the previous franchise, Dr Ho's STDM paid 30 per cent of its casino takings in tax.

That has been raised to 31.8 per cent. Under the terms of the accord, STDM will also pay US$6.3m to an unemployment fund. It will contribute 1.6 per cent of its gross takings to a new Macao development foundation, apart from a US$22.7m down-payment to the foundation.

Although raising contributions from Dr Ho's franchise, the accord confirms he will keep control of the monopoly until the licence expires in 2001. *John Ridding, Hong Kong*

Venezuela gambling move

The Venezuelan congress is this week to approve a controversial gaming law in an attempt to crack down on hundreds of illegal casinos, one of the principal channels of widespread money laundering. The law will tighten regulation of the gaming industry and drastically cut the number of casinos and bingo parlours nationwide. According to one of the bill's several articles already approved, customers with more than $5,000 in cash must now report the origin of their funds.

Casinos will be able to operate only in five-star hotels with a capacity of more than 200 guests, subject to the approval of the nation's president. Casinos will also face a special 120 per cent tax. Officials at the National Anti-Narcotics Commission in Caracas say they are a key element in the initial phase of laundering revenue from drug sales. An estimated $2.5bn is laundered in Venezuela annually. *Raymond Colitt, Caracas*

Sharon eyes finance ministry

Mr Ariel Sharon (*pictured left*), Israel's hawkish infrastructure minister, is poised to be appointed Israel's finance minister when Mr Benjamin Netanyahu, the prime minister, announces a reshuffle of his cabinet. The reshuffle, expected tomorrow, follows the resignation last week of Mr Dan Meridor as finance minister. Government officials yesterday said Mr Sharon was a leading contender for the coveted treasury post. If appointed, political analysts said Mr Sharon would have greater influence on government policymaking, including the peace process. The former general was a driving force in Israel's establishment of Jewish settlements throughout the Israeli-occupied West Bank in the early 1990s.

Financial analysts predict Mr Sharon would be unlikely to carry out a tight fiscal policy if he wins control of the treasury. Mr Meridor had maintained a tight rein on government expenditures and pushed through a Shk7.2bn ($2.1bn) cut in Israel's 1997 budget during his year as finance minister. *Avi Machlis, Jerusalem*

Pol Pot handover 'soon'

Pol Pot, the Khmer Rouge leader, is still alive and will be handed over to the Cambodian government very soon, a government general confirmed yesterday. "Pol Pot is still alive. I met him this morning," said General Nhiek Bun Chhay. Earlier yesterday, Cambodian Second Prime Minister Hun Sen said he had received an unconfirmed report that the 69-year-old guerrilla leader, blamed for the "killing fields" deaths of over a million of his people in the 1970s, was dead. He has long suffered from malaria.

Mr Nhiek Bun Chhay, Cambodian armed forces' deputy chief of general staff, who has spearheaded talks with Khmer Rouge renegades who broke with Pol Pot earlier this month, said the guerrilla leader was being detained at the Anlong Veng jungle headquarters of the breakaway faction which captured him last week. He said that the breakaway faction had agreed to dissolve its political and military wings and recognise the government and that Pol Pot would be handed over to the government soon. The general said he did not talk to Pol Pot but saw him in a house where he was being held. *Reuter, Phnom Penh*

Congo political figures held

The government of Mr Laurent Kabila in Congo (formerly Zaire) has detained several political figures who were prominent during the rule of ousted former President Mobutu Sese Seko. News of the arrests followed an announcement at the weekend that the bosses of state enterprises had been collectively suspended.

At least eight leading political and former government figures from the Mobutu era, not all allies of the ousted president, were arrested last week, according to family members and associates. A government official would only confirm the arrest of two political figures and one director of a state owned company. He named the director of Ozac (The Zairean Office of Standards Control) Mr Fundu Kota, as one of those arrested, but did not name the others. *Reuter, Kinshasa*

NEWS: US TOBACCO DEAL

Philip Morris the big winner

It is a safe bet that all the big tobacco companies involved in the US settlement have calculated that they will gain more than they lose: otherwise, they would not have agreed to it. But not all seem likely to benefit to the same degree.

The biggest winner will probably be Philip Morris, the largest US tobacco company. Although it has 49 per cent of the US tobacco market, and will therefore make the biggest contribution to the $368bn settlement, it is financially much stronger than the other companies.

It also derives only 30 per cent of its operating profits from US tobacco, with the rest coming from its fast-growing international tobacco, Kraft food and Miller beer businesses. And since it is already dominant in US tobacco, it stands to gain from the proposed advertising curbs because they will make it harder for other companies to chip away at its market share.

RJR Nabisco, number two in the US market with a 24 per cent share, is financially weaker than Philip Morris because it is still burdened with debt from a $25bn leveraged buy-out that it underwent in 1988. Further, it relies on the US for 50 per cent of operating profits, and its Winston and Camel brands have been struggling to compete with Philip Morris's Marlboro.

However, elimination of the litigation risk should enable RJR Nabisco to fulfil its ambition to spin off its Nabisco food business to shareholders – a move that, if fulfilled, would bring a big boost to the parent company's stock price.

Britain's BAT Industries has 16 per cent of the US market through its US subsidiary, Brown & Williamson Tobacco. But the group is much less heavily exposed to the US market than the big US companies: it earns less from tobacco sales in the US than it does from Europe or Latin America, and it also has a big financial services division.

Lorillard, with 8 per cent of the market, is also part of a larger group with deep pockets: Loews, run by the Tisch family, which has a diverse range of holdings.

Liggett, part of Mr Bennett LeBow's Brooke Group, which broke with the US tobacco industry to negotiate a separate settlement last year, is more vulnerable. With less than 2 per cent of the market, it is in serious financial difficulties and faces bankruptcy unless acquired or otherwise rescued soon.

Richard Tomkins

Tobacco groups may face global onslaught

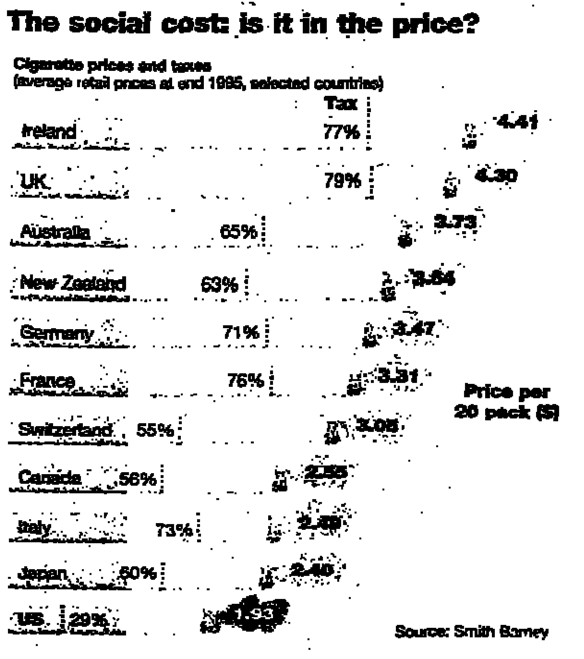
The tobacco industry is facing co-ordinated legal action across the world by health authorities seeking to recover healthcare costs associated with smoking following the $368bn deal reached with US cigarette makers in Washington last week.

Claims by the industry that the agreement with the 40 states' attorneys general was simply "a US solution to a US problem" with few, if any, implications elsewhere, were dismissed by lawyers behind similar actions against the industry in other countries.

Mr Martin Day, the London solicitor whose firm, Leigh Day & Co, is acting on a no-win, no-fee basis for 47 lung cancer victims suing Imperial Tobacco and Gallaher, the UK's biggest cigarette manufacturers, said: "The torch used to light this bonfire in the US will spread worldwide."

The effect was already being seen in the UK, he said, where 11 health authorities, led by Croydon health district, south London, announced on Friday that they would sue the tobacco companies for healthcare costs associated with smoking.

The social cost: is it in the price?



The British Medical Association puts the cost of treating smoking-related diseases in the UK at more than £600m ($990m) a year.

"Health authorities all over the world are going to be saying: 'If the US tobacco companies are prepared to accept they should bear some of the financial cost of treating smoking-related diseases, why should it be any different in our country'," he said.

Mr Day said lawyers from across Europe met in Brussels earlier this month under the auspices of European cancer societies to co-ordinate legal action against the tobacco industry throughout the European Union.

They have been invited to Beijing in August to talk to lawyers in the developing world. Contacts had already been established with lawyers in Malaysia, Australia and New Zealand, he said. China is the world's biggest cigarette market with 1,639bn cigarettes sold there each year.

The industry maintains the US settlement has few, if any, implications for the rest of the world, primarily because the industry outside the US already meets a significant amount of the social costs associated with smoking.

Mr Michael Prideaux of BAT industries, whose Brown & Williamson subsidiary has 16.6 per cent of the US market, said the UK health authorities were missing the point. "In the US, cigarette tax, both state and federal, amounts to only 30 per cent of the retail price, whereas in the UK it is 79 per cent."

International statistics showed that the UK government received almost the same revenue – about $13bn – from the 80bn cigarette market in the UK as the US government did from a market of 480bn cigarettes, he said.

"The fact is that in the US, cigarettes bear a lower tax burden than practically anywhere else in the world, including China."

The tax rate in Brazil, BAT's second largest market is 74 per cent. In most of the EU, cigarette tax is above 70 per cent. In Kenya, it is 54 per cent and in India, the world's fourth largest market with 100bn cigarettes sold each year, the rate is 53 per cent.

However, his argument is also rejected by lawyers. Mr Day said the big difference about the US agreement was that for the first time the money would be paid by the industry. Cigarette tax is met largely by individual smokers.

Mr Day believes that the US agreement and the mounting pressures of claims all over the world inevitably mean the industry will be driven into a worldwide settlement sooner rather than later.

In the UK, at the beginning of July, a High Court judge will be appointed to hear the UK smokers' claims.

His job will be to decide the common issues to all 47 cases, such as the effects of tar and whether smoking causes lung cancer.

"If we succeed on those issues, it will be a judgment not just for those 47 cases but for all future lung cancer cases. There are 35,000 lung cancer sufferers in the UK about 20,000 of whom have a chance of suing successfully. So the industry could suddenly find itself facing a £1bn annual bill." That sum would exceed Imperial and Gallaher's combined annual profit of £900m.

"After that it's a question of the impact on the City. Do the tobacco companies go to trial and risk losing, further upsetting their shareholders? The pressure to settle will be enormous.

"Gallaher says it will continue to fight these cases. But I remember when Liggett Group announced its deal in March, Philip Morris said it would never settle. The US pressures will spill over to the rest of the world, there's no question," he said.

Tobacco industry analysts said yesterday they expected tobacco shares to remain stable in London today.

BAT closed up 7p at 589 on Friday before the terms of the US deal were known.

Robert Rice

Companies look to Asian market

While the US tobacco companies' concessions in their deal last week have no direct bearing on their prospects abroad, it is a different – and sometimes tough – world out there.

Take Vietnam, for instance. The Asian country's demographics make it a tantalising prospect for cigarette companies in search of fresh markets.

About 50 per cent of Vietnamese are under 25 and the country's population of 75m is growing by 2 per cent a year. A study in a US medical journal recently found that 72 per cent of Vietnamese men are smokers.

Moreover, rising affluence in the cities is creating a consumer class in a country that has been poor for decades.

However, the going has been tough for Philip Morris and British American Tobacco, whose "555" brand is manufactured under licence by the state tobacco monopoly. Pressure from that monopoly, which fears losing market share, is thought to be behind recent legislation severely curbing foreign companies' marketing efforts.

Last week, Hanoi announced a ban on foreign tobacco companies sponsoring sporting and cultural events. It also decided to stop licensing any more foreign investment in cigarette manufacturing.

That came on top of a 1995 ban on tobacco advertising. Merchandising, to which the foreign companies had turned instead, was also limited under another set of rules issued early this year.

Meanwhile, in Japan, the industry reacted calmly to the US deal. "The situation in Japan is different from that in the US," said Mr Masaru Mizuno, president of Japan Tobacco, the privatised domestic tobacco producer. He was refering to the fact that Japan is a less litigious society.

The Japanese courts' position that smoking is an issue that should be left to individual judgment appears to bear out the view at Japan Tobacco that recent developments in the US are unlikely to have an immediate impact on the Japanese market, the third largest after the US and China.

The Japanese tobacco market, at about Y4,000bn ($34.8bn) has been growing each year for the past seven years, albeit at a moderate rate.

While smoking in public has become less acceptable, moves to curb smoking and protect non-smokers from the effects of tobacco have largely been restricted to bans on smoking in such public places as railway stations and cinemas.

But for US companies which might view that as a less hostile environment in which to do business, there is still the problem that Japan Tobacco has about 80 per cent of the domestic market.

Jeremy Grant, Michiyo Nakamoto

FDA readies to take up tobacco duties

The US Food and Drug Administration, which will regulate tobacco products if the deal goes through, is responsible for protecting the health of the nation against impure and unsafe foods, drugs, cosmetics and other potential hazards.

The products under its jurisdiction account for 25 cents of every consumer dollar spent.

It deals with a wide range of issues – from breast implants to food additives and labelling to the production of medical products and safety of the blood supply. However, it has always been reluctant to take on the tobacco companies and their powerful friends in Congress.

No one has yet seen the fine print in the deal with the tobacco companies. But Mr Robert Butterworth, Florida attorney general, said: "The industry that has never been regulated before will now be the most regulated industry in America."

However, Dr David Kessler, FDA commissioner until last November, was less enthusiastic. Yesterday he said the agreement sets up "a lot of hurdles for the FDA" in requiring that it prove that eliminating nicotine will not create a black market for cigarettes.

"This seems to be a step backwards," he said, insisting that the FDA has already won the power to regulate nicotine in a South Carolina court case. Dr Kessler was the first FDA head to take on the cigarette companies, but he moved cautiously, deciding against challenging tobacco as a lethal drug to be banned or tightly regulated.

However, he designated use of tobacco by teenagers as a pediatric disease and argued cigarettes were a nicotine delivery system. It was on this basis that President Clinton launched a politically popular regulatory initiative to curb teenage smoking, restricting sales to those under 18 and severely cutting advertising.

The FDA's powers are by no means unrestricted. It has tried and failed to keep dangerous dietary supplements off the market.

It has been harshly criticised for moving to approve new drugs too slowly, but its performance – particularly for AIDS related drugs – has improved in recent years. In fiscal 1996, its average review time was 15 months, about half the time required in the 1980s.

Nancy Dunne

Government supports efforts by the City to block proposed European legislation over bids

Ministers to challenge EU on takeovers

By David Wighton
Political Correspondent

The government is backing City efforts to block proposed EU-wide legislation on the conduct of takeover bids which is due to be debated by the European parliament on Wednesday.

Ministers will argue that takeover rules should be a matter for individual member states under the principle of subsidiarity.

The government's stand will be welcomed by the Takeover Panel, which has been lobbying hard to preserve the non-statutory system of bid regulation in the UK. Supporters say the current self-regulatory system provides speed, flexibility and certainty, which would be threatened if parties had recourse to the courts.

Because the directive is subject to the co-decision procedure, the parliament has a significant role in the eventual outcome.

The Takeover Panel has been trying to persuade members of the European parliament that while there is a case for harmonising EU takeover rules, which in most countries are much less strict than in the UK, there are much more important issues for the completion of the single market.

Mr Alistair Defriez, director-general of the panel, has written to MEPs expressing "very serious concerns" about the proposal. "This is the wrong measure, at the wrong time," he wrote.

The City is also concerned that some MEPs see the directive as an opportunity to make bids more difficult and preserve jobs. The European parliament's legal affairs committee has put forward an amendment which would make "safeguarding jobs" one of the duties of the offeree company's board.

A committee report concludes that harmonisation would "make it possible to establish a degree of loyalty between the various stock market players with the ultimate aim of discouraging purely speculative raids".

Safeguarding jobs should be a "primordial concern", the report says, and the committee would not be prepared to back bids "whose sole motive would be to obtain purely financial advantages".

Mr Defriez has been trying to persuade MEPs that such issues are a matter for competition policy and have nothing to do with rules governing the conduct of bids.

The panel's opposition to the directive was strongly backed by the Conservatives, but there have been some doubts over the new Labour government's position.

In opposition, some former frontbenchers privately expressed support for bringing the Takeover Panel within Labour's proposed statutory system of financial regulation.

And in Brussels there has been a view that a Labour government might take a softer line in opposing the new directive. But Mrs Helen Liddell, economic secretary to the Treasury, has made clear that there are no plans to bring the panel within the expanded Securities and Investments Board.

Brendan Corr

Helen Liddell, the chief economic secretary to the Treasury

Mobile phone users face number change

By Alan Cane

The UK's 7m mobile phone users will be forced to change their numbers over the next four years after a ruling by Oftel, the telecommunications regulator, which most operators claim is unwelcome and unnecessary.

The change is designed to ensure that all so-called "find me anywhere" numbers, which include mobile services, paging services and personal numbers, start with the prefix 07.

At present, mobile numbers begin with a variety of prefixes including 03, 04,05 and 09.

Personal numbers, or "numbers for life", already begin with the 07 prefix. They are marketed by a number of operators including British Telecommunications.

Holders are guaranteed that they will never have to change their number and that the same number will reach any type of telephone, whether fixed or mobile.

The change is likely to anger subscribers who have held the same number for a long time or who want to retain the same number when changing operators.

Mobile operators are critical of the move. Vodafone, the UK's largest operator, said it was an unfortunate decision which would lead to confusion in the short term. Orange Communications said: "It is bad for customers and unnecessary."

Most current subscribers do not realise they will have to change to an 07 number by 2001, with the consequence for business that stationery and logos bearing mobile numbers will have to be altered.

The move by Oftel has overturned an earlier decision that mobile services should change to the 04 prefix, taken after "Phoneday" in 1995 when UK numbers last went through a big revision.

Now Oftel, which has responsibility for the UK's number stock, has warned operators that the 04 range can no longer be used for mobiles, insisting that only the 07 range is to be used from now on.

Cellnet, the UK's second largest mobile phones operator, said it was important that the first numbering change involving mobile phones should go smoothly: "We can foresee serious difficulties," it said.

Oftel believes that the high level of "churn" – subscribers moving between operators or leaving the network, coupled with the move from the older analogue networks to more efficient digital services – means that customers will be little inconvenienced by the change.

Orange Communications said the move may put off the date for mobile portability – the ability of a customer to retain the same number when changing operators – until late 1999 when most subscribers are on the 07 prefix.

Local authorities face squeeze from tax move

By Jonathan Guthrie

The abolition of tax credits to pension funds on advance corporation tax, expected in the July 2 Budget, would force many local authorities to increase local taxes or cut services, experts warn.

The tax reform would reduce the dividend income of pension funds by 20 per cent. This would be catastrophic for many local authority pension funds, which have big shortfalls between expected income and commitments. Programmes of contribution increases put in place last year to solve this problem would be derailed by the tax change.

In contrast, the majority of company pension schemes could weather the loss of the tax credit.

"Local authority funds have been hammered over the last 10 years – all their surpluses have been used up, so they are in a very poor position to take any more kicks to the head," said Mr Graeme Muir, a partner of Hymans Robertson, the actuarial firm.

Mr Muir estimated that funding deficits would widen by 10 to 15 per cent if ACT tax credits were abolished. Most local authority funds suffer such deficits. According to a survey conducted last year, the bottom fifth expect their long-term income to be 20 per cent or more below outgoings.

To compensate local authorities for the change to ACT, Mr Muir said employer contributions would have to rise by 5 per cent of payroll costs a year. This burden would be passed on to local residents. Although the Labour government is committed to abolishing the Conservatives' rate-capping regime, it is expected to keep a tight reign on any rises. Therefore, cuts in services are more likely.

Mr Richard Cockcroft, director of corporate services at Gloucestershire County Council, said: "I am already putting an extra £1m into the fund a year to maintain solvency of 80 per cent of liabilities, and that is at the expense of frontline services." He said the abolition of the tax credit would be "extremely negative".

The deficits run up by most local authority funds, which have total assets of £60bn ($99bn), are due partly to a reorganisation instituted by the last government. Headcounts were often cut by giving staff enhanced pensions for retiring early.

In addition, in 1989 the government told councils to cut solvency levels to reduce local taxes. Mr David Lewis, corporate finance director of Kent County Council, said its £1.3bn fund had a funding deficit of some 20 per cent.

He said: "If ACT tax credits are abolished we will be even worse hit. Under the current capping regime we can only spend £1.027bn a year. We are not in a position to claw back money from an employer as a company scheme can."

UK NEWS DIGEST

$412m 'road to rail' plan

Detailed proposals for a £250m ($412.5m) upgrade of rail lines linking the Channel tunnel between England and France and Glasgow in Scotland to allow them to take "piggyback" wagons carrying road trailers are to be put to the government by Railtrack within the next month.

Revised projections by Railtrack have cut £100m off the cost of the plan, the most ambitious freight scheme since privatisation of the rail network. However, £150m of government grants may be needed to make it viable. The upgrade would involve modifying tunnels, bridges and sections of track to take the piggyback wagons, which are higher than existing wagons.

Controversy has surrounded the costing of the project. Railtrack originally said the scheme would cost £100m but last year produced revised costings of nearly £350m, raising concerns that the scheme would not be viable. The latest forecast is accepted as realistic by English Welsh & Scottish Railway, the largest UK rail freight operator.

Mr Robin Gisby, Railtrack head of freight, said the route could be in operation by 2003. However, Mr Julian Worth, EWS business development manager, said the company hoped to start a service transporting road tankers, which fit into existing tunnels, within the next 12 months. *Charles Batchelor, London*

■ GOVERNMENT SPENDING

Extra funds may go to schools

A switch of resources from social security to schools could take place as early as next year, the Treasury indicated yesterday, in a modest modification of the Labour government's tough adherence to departmental expenditure limits inherited from the previous Conservative government.

Amid warnings from junior ministers of a funding crisis in schools, Treasury officials said that if savings in non-cyclical social security could be found by the autumn, then the extra funds would go to education.

During the election, Labour said no government department would be allowed to spend above ceilings laid down in last year's Budget. Speaking at the end of the G7 summit in Denver, Mr Gordon Brown, chancellor of the exchequer, denied this position had been compromised.

But the move was described as "a clear breach of an election promise" by the Conservative party's Mr Peter Lilley, shadow chancellor. *Liam Halligan in London*

■ NORTHERN IRELAND

Sinn Féin urges talks resumption

Mr Martin McGuinness, one of the leading strategists with Sinn Féin, the political wing of the Irish Republican Army, yesterday urged the British government to resume official contacts with his party in the interests of peace as the marching season by Protestants loyal to the UK fuelled sectarian tension in Northern Ireland.

"The task facing us, if it is to be successful, needs absolute clarity, and this can best be accomplished in face to face discussions," said Mr McGuinness.

In Bellaghy, County Londonderry, police turned up in large numbers at a loyalist march which passed off peacefully. There had been fears of clashes between Protestants and Catholics. *Jimmy Burns in Belfast*

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ TODAY

Abbey National Treasury 7¾% Gtd Nts 1998 £77.50
All Nippon Airways 4½% Nts 1998 Y450000.0
Ascot 3.9p
Bristol & West Bldg Scty 10¾% Sb Bd 2018 £107.50
Finland 10⅛% Bd 2008 £101.25
Greenalls 10½% Db 2017 £5.25
IAWS IR1.531p
Jets Int Ser F Sec FRN 1997 Y147124.0
Kingspan IR2.8p
Lasmo 10⅜% Db 2009 £5.1875
MMC Int Fin 6% Bd 1998 $60000.0
Nihon Doro Kodan 7% Gtd Bd 2006 $700.0
Do 9⅜% Gtd Bd 2000 $468.75
Perpetual Inc & Grwth Inv Tst 1.89p
Royal Bank of Scotland 9⅝% Sb Bd 2015 £962.50
Sage 0.97p
Spintab 7½% Bd 1997 $750.0
Sumitomo Realty & Dev 4½% Nts 1998 Y450000.0
Do 4.8% Nts 2000 Y480000.0
Tokyo Tatemono 5% Bd 2000 Y500000.0
Do 5.2% Bd 2003 Y520000.0
Toyo Ink 5.05% Bd 2000 Y505000.0
Unilever 7⅛% Bd 2004 FFr712.5

■ TOMORROW

Airtours 4p
Ann Street Brewery Rd Cv 2nd Pf 32p
BP America 9½% Gtd Bd 2002 C$95.0
Boots 10⅛% Bd 2017 £2531.25
Cheltenham & Gloucester 7⅞% Nts 1998 £78.75
Ford Credit Europe FRN 2001 £16.45
HSBC Americas Inc Sb FRN 2009 $150.14
Manchester 3% Rd Cons £0.75
Do 3% 1891 Rd £1.50
Oasis Stores 4.9p
Sleepy Kids 0.1p
Standard Chartered Und Prim Cap FRN £83.49
Sumitomo Realty & Dev 4.2% Nts 1997 Y420000.0
3i Smaller Quoted Co's Tst 2.86p
Woolwich Bldg Scty FRN 1999 £163.84

■ WEDNESDAY JUNE 25

Du Pont 8½% Nts 1998 $85.0
Fleming Worldwide Inc Inv Tst 1.56p
Do Units 1.56p
Foreign & Colonial German Inv Tst 0.75p
Fuji Bank Int Fin Und Sb Gtd Var Rate Nts Y28750.0
Hercules $0.25
Morgan Grenfell Latin American Co's Tst 0.33p
NT & T 7¼% Nts 1998 C$72.50
Sabre Int (No 2) Ser P Var Rate Nts 1998 Y21543.0
Stanley Elec 6.3% Bd 1997 Y630000.0
Do 6.4% Bd 1999 Y640000.0
State Bank of New South Wales 10% Nts 1997 NZ$100.0
Sumitomo Realty & Dev 6% Nts 1997 Y600000.0
Do FRN 1997 Y532603.0
Warner Howard 0.25p

■ THURSDAY JUNE 26

Antofagasta 3.6p
Asahi Chemical 7.2% Bd 1998 Y720000.0
British & American Inv Tst 2p
Chime Comms 1.15p
Electricite de France 10½% Gtd Bd 2009 £1050.0
Nihon Doro Kodan 8⅝% Gtd Bd 2001 $431.25

■ FRIDAY JUNE 27

Abbey National Und Sb Fxd/FRN Y204444.0
Asia Healthcare Tst 1.17p
Autobacs Seven Y19.50
BG 8¾% Bd 2025 £87.50
BS 10p
Bank fur Arbeit und Wirtschaft Sb FRN 1999 $293.85
Benchmark 3p
Bloomsbury Publishing 2.8p
Dunedin Worldwide Inv Tst 0.48p
Finsbury Growth Tst 1.1p
Foreign & Colonial Inc Grwth Inv Tst 1.2p
Halifax Bldg Scty Sb Var Rate Nts £171.55
Hampden 1.8p
Italy FRN 2000 $284.38
Jersey Phoenix Tst 1.5p
Lex Service 6½% Cm Pf 2.275p
Midland Bank Unc Prim Cap FRN (Jun 1985) $297.01
Narborough Plantations 20% Cm Pf 1p
NationsBank $0.33
Residential Property Sec No 3 Class A2 Mtg Bckd FRN 2025 £1385.61
Do Class B £1928.81
Scudder Latin America Inv Tst 0.5p
Skipton Bldg Scty Sb FRN 2000 £37646.58
Stars 1 Class A Mtg Bckd Fltg Rate Sec 2029 £92.21
TDK Y35.0
Tokyo Tatemono 7% Bd 1997 Y700000.0
Town Centre Sec 10½% 1st Mtg Db 2021 £5.25
Versailles 0.215p
Watermark 0.8p
Wolverhampton & Dudley Breweries 6.6p

■ SATURDAY JUNE 28

Asahi Bank Y3.50
Fidelity European Values Equity IL Un Ln 2001 1.1399p
Mitsubishi Y4.0
Mitsubishi Tst & Banking Y4.0
Sumitomo Tst & Banking Y4.0
Yasuda Tst & Banking Y2.50

UK COMPANIES

■ TODAY

COMPANY MEETINGS:
Foreign & Colonial Income Growth Inv Tst, Exchange House, Primrose Street, E.C., 12.15
GT Income Growth Tst, 125, London Wall, E.C., 12.00
Highbury House Communications, New Barbican Hotel, 120, Central Street, Clerkenwell, E.C., 11.00

BOARD MEETINGS:

Finals:
Adare Printing
AEA Technology
Allen
Harvey Nichols
TBI

Interims:
Lonrho

■ TOMORROW

COMPANY MEETINGS:
Abbott Mead Vickers, Four Seasons Hotel, Hamilton Place, Park Lane, W., 11.00
Alpha Airports, Excelsior Hotel (Heathrow), Bath Road, West Drayton, Middlesex, 11.00
Baring Stratton Inv Tst, 155, Bishopsgate, E.C., 2.30
David Brown, Moor House, 119, London Wall, E.C., 11.30
Flextech, 160, Great Portland Street, W., 12.00
Govett Oriental Inv Tst, Ironmongers' Hall, Shaftesbury Place, Barbican, E.C., 12.00
Mercury European Privatisation Tst, Gibson Hall, 13, Bishopsgage, E.C., 2.30
Montanaro UK Smaller Cos Inv Tst, Bucklersbury House, 83, Cannon Street, E.C., 12.30
Prowting, The Brewery, Chiswell Street, E.C., 12.30
QS Holdings, Harbour House, 121, Gardner Road, Portslade, Brighton, 12.00
Sears, London Marriott Hotel, Grosvenor Square, W., 11.00
Warner Howard, The Brewery, Chiswell Street, E.C., 12.00

BOARD MEETINGS:

Finals:
Alba
Chloride
Claybithe
East Surrey Holdings
Evans of Leeds
Halma
Hampson Industries
Hewetson
Majestic Wines
Photobition Group
Vendome Luxury Group

Interims:
First Leisure Corp

■ WEDNESDAY JUNE 25

COMPANY MEETINGS:

Andrew Sykes Group, The Grosvenor House Hotel, Park Lane, W., 12.00
Eyecare Products, Broadwalk House, 5, Appold Street, E.C., 11.00
Mercury Asset Management, Painters' Hall, 9, Little Trinity Lane, E.C., 12.00
Radiotrust, 99, Charterhouse Street, E.C., 12.00
Versailles Group, 116, Pall Mall, S.W., 11.00
York Waterworks, Lendal Tower, York, 12.00

BOARD MEETINGS:

Finals:
DBS Management
Greene King
Hogg Robinson
Lambert Fenchurch Group
London Insurance Market Inv Tst
Murray Smaller Markets
Tarns (John) Group
TGI
Vocalis Group
Wessex Water

Interims:
ML Laboratories

■ THURSDAY JUNE 26

COMPANY MEETINGS:
Antofagasta Hldgs, Chartered Accountants' Hall, Moorgate Place, E.C., 10.30
Bloomsbury Publishing, 38, Soho Square, W., 12.00
Brands Hatch Leisure, Brands Hatch Circuit, Fawkham, Longfield, Kent, 12.00
Cobham, Painters' Hall, 9, Little Trinity Lane, E.C., 12.00
Energy Capital Investment, 99, Charterhouse Street, E.C., 12.00
Formister, The Prince Regent Hotel, Manor Road, Woodford Bridge, Essex, 12.30
Martin Currie Pacific Tst, Saltire Court, 20, Castle Terrace, Edinburgh, 12.30
Riva, Crompton House, Barrsford Road, Wingates Industrial Park, West Houghton, Bolton, 12.00
Yorklyde, Three Acres Hotel, Roydhouse, Shelley, Huddersfield, 11.30

BOARD MEETINGS:

Finals:
Asda Group
Atkins (WS)
Berkeley Group
BPB
Christie Group
Debenham Tewson
Fidelity Asian Values
Great Universal Stores
Jones & Shipman
Kalamazoo Computer Group
Kewill Systems
Regalian Properties
Sytone
Xavier

■ FRIDAY JUNE 27

COMPANY MEETINGS:
Cable and Wireless, New Connaught Rooms, 61-65, Great Queen Street, W.C., 11.00
Grampian Hldgs, The Glasgow Moat House Hotel, Congress Road, Glasgow, 12.00
Hartlepool Water, 3, Lancaster Road, Hartlepool, 12.00
Shires Income, 41, Tower Hill, E.C., 12.00

BOARD MEETINGS:

Finals:
Cafe Inns
Ivory & Sime
Macoale
Neepsend

Interims:
Scudder Latin American Inv Tst

Company meetings are annual general meetings unless otherwise stated.
Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.
This list is not necessarily comprehensive since companies are no longer obliged to notify the Stock Exchange of imminent announcements.

Japan's haven for grumblers

DATELINE

Tokyo: the city's appearance of hutchlike imprisonment conceals a rural sense of security, writes William Dawkins

Complaining about Japan is a favourite game among western expatriates in Tokyo. Cramped apartment life, sharing a restricted space with about 12m neighbours – equivalent to more than the population of Belgium – and Japanese officialdom's tendency to regulate everything that can be regulated. These are the most common grouses.

As I pack up to leave Tokyo this week after a four-year stay, it seems a good time to ask whether Japanese urban life is as uncomfortable as all that.

There is a wider point. Are the Japanese, as many foreign commentators maintain, rich people impoverished by their lifestyle? Is it, as one former French prime minister claimed after a visit to Tokyo, a rabbit-hutch existence?

Certainly, a first sight of Tokyo is ugly enough to instil a sense of hutch-like imprisonment, as is the case with most Japanese cities. Take the view from my bedroom window; a forest of tower blocks and a three-layer expressway framed in a smoky haze. The jumble of buildings and roads looks the same in each direction.

But that is just a surface view. Descend to street level and the scene changes from *Bladerunner* to a picturesque village.

At the foot of those tower-blocks squeezed up against the expressway is a tiny shopping street, with a sushi store, karaoke bar, Belgian pub, Irish pub, fortune teller, and so on.

Cross beneath the motorway, to the other side of the village, and you can sometimes hear the booming of a bronze bell from a Buddhist monastery, a surprising oasis of calm. I often visit it and watch the monks at prayer, inclined heads silhouetted against an open shoji screen looking out on to a garden of intense green.

As with Japan generally, a proper view of Tokyo life depends on attention to detail. Close up, the neighbourhood does not just look like a village. It feels like one.

The locals treat the shopping street as an extension of home. We do the same. I don't bother too much about whether or not the fridge is stocked with beer, because I can get four brands of iced lager from a vending machine 25 yards away.

There is a rural sense of security. My children can travel almost anywhere alone. Doors are safely left unlocked. A lost Filofax is returned to my office, plus credit cards and an apologetic note from the finder for not returning it in person.

There are exceptions, of course. Thefts are on the increase and the poison-gas attack on the Tokyo subway, by an apocalyptic mystical sect two years ago, was a warning against taking Japan's social stability too much for granted. Even so, Tokyo feels secure in a way that is untrue of, say, London or New York.

Why is it like that? Some point to the communal spirit, a legacy of a rural, rice-growing culture, visible in the odd tiny rice field still crammed in between the tower blocks because of arcane land use laws.

Others point to those much complained-of regulations. They keep things ticking along nicely in all kinds of ways. They are another factor in a crime rate that remains low despite the recent rise.

But on a more humdrum level, regulations ensure that the sushi is always fresh, prepared by hand in a tiny cubicle lined with framed originals of the dozen or so licenses needed to operate the store.

Rules ensure that the streets, or at least most of them, are clear of parked cars, important in the maze of nameless lanes surrounding the expressways.

Infringements of regulations tend to be on a grand scale, remote from routine life, beyond nourishing the gossip at the local sushi stall.

Respect for little rules, by contrast, runs deep. It tends to take root, even in the most disorderly foreigner. These days, I catch myself waiting for pedestrian lights to turn green before I cross the street, even though no cars are in sight.

But the more intrusive regulations can vary from comic to infuriating, which is where I join fellow expat grumblers.

I will never forget accompanying my wife to hospital for the birth of our son. As she was wheeled from waiting room to delivery suite, I stumbled along behind, having to stop at each door to change shoes, from one set of absurdly small regulation blue plastic sandals to green, then back to blue.

The two of us laughed about that. But a later hospital visit, when the then toddler was suffering from an asthma attack, was nearly tragic. The emergency ward refused to treat him, in mid-attack, until a pile of forms had first been filled out. Luckily, he recovered while I was writing out the third copy of our alien registration number.

Agonising yes, but no point in complaining. For complain is just what Japanese officials expect foreigners to do. You have to take Japan as it comes. We learned to – and on the whole, we liked it.

The Monday Profile: Margaret Barbour

Matriarch in a waxed jacket

Margaret Barbour enjoys undeserved obscurity. As the highest-earning business woman in Britain, she shuns publicity, believing renown based on her wealth would be misleading and dangerous.

In her eyes, her multi-million income is no more than a number on a balance sheet. Most of it is locked up in the assets of Barbour, the waxed jacket manufacturer.

When she took charge of the business, in 1968, Barbour was no more than a tiny mail-order company, set up at the end of the last century to make oilskins for lighthouse men, and since developed as a manufacturer of motor cycle gear.

She began her working life as an arts and social science teacher in London's first comprehensive. It was through a personal tragedy that she came to own Barbour, together with her mother-in-law and daughter.

In the summer of 1968, her 29-year-old husband, John Barbour, died from a brain haemorrhage. He had inherited Barbour from his grandfather only five years earlier.

Margaret was left with a toddler, Helen, and a company facing sizeable death duties. Her decision to keep the company, and make it great, was tied up with her own grief: "John was so proud of it," she says.

During the next few years she was everywhere. She worked as a receptionist at the company's only factory, in South Shields. She worked in accounts, learning how to pay the company's 70 employees.

Nonetheless, she refuses to take credit for selling Britain's middle classes the idea of wearing waxed cotton for their walks on the moors. "The High Street stores came and found us," she says.

But that was after the company had won its first Royal Warrant, in 1974, from the Duke of Edinburgh for supplying him with clothing. By then Margaret had been directing the company's development and marketing for six years.

Two more Royal Warrants followed, from the Queen in 1982 and the Prince of Wales in 1987, and Barbour began to emerge as a household name and international brand.

Today the company has nine factories, 800 employees and turnover of about £75m, compared with £500,000 in 1968.

But Margaret's story amounts to more than the feat of turning a niche-market jacket into a badge of class. She has also created one of the UK's most successful clothing exporters while snubbing conventional business networks and practices.

She characterises her approach as the woman's way of doing business. "The Barbour family has never lived in any great style," she says, and the Barbour women have never required huge dividends. That has left the company with plenty of cash. It did once have some debt, after a sharp rise in demand in the early 1980s triggered a rapid expansion into more factories. But the loans are long-since repaid.

An aversion to dependency on men's institutions is a recurring theme. She describes the textile and clothing industry associations as "too male-dominated". Barbour belongs to none of them.

But she feels differently about the Royal Warrant Holders Association. Here, she has personally ensured that the association is not too male-dominated – by becoming its first woman president. Her interest is social rather than business: "I can be totally myself, with others who have achieved. No-one is going to be sycophantic," she says.

And again, it is the women in this "specialist club" that she identifies as the main attraction: Sheila Pickles, the perfumier, Anna Plowden, the antique restorer.

She believes sociability is what divides women from men in the world of business. A wealthy businessman is likely to take on a private aircraft and all kinds of trappings, she says.

"I still have the same friends I had 30 years ago," she points out. Cranking up her lifestyle to that of the super-rich would have seen off such ties, she believes.

She also harbours a strong sense of responsibility for her community. Barbour gives one fifth of its profits to charity, but the company's greatest achievement, says Margaret, has been in creating so many jobs.

"The concept of the family is very strong. It really is paternalism." The upside of this is better-than-average pay and negligible staff turnover. The downside is that Barbour is a demanding employer.

She expects a great deal from herself, and those around her. "We don't like 9 to 5 people here. That has always been the case. They have never lasted."

Outsiders also point to the maintenance of an old-fashioned hierarchy: "She is still called Mrs Barbour," says one.

For 22 years, the strong and autocratic Malcolm Sunderland ran the company as managing director. He resigned earlier this year for personal reasons.

His departure has drawn her back into the action and she has taken over the day-to-day running of the company.

Now 57, Margaret has no intention of going public. "It would undermine all I have achieved," she says.

Jenny Luesby

FT GUIDE TO:

PENSIONS TIME BOMB

The European Commission seems to be getting very concerned about pensions provision within Europe. What's the problem?

The main problem is a falling birth rate. European pensioners get the bulk of their pension income from state schemes run on a pay-as-you-go (PAYG) basis. This means the money comes from taxation of people who are working. That is fine as long as the ratio of pensioners to workers is declining or static.

But longevity is increasing and birth rates are dropping, partly because generous state pensions support old people more comfortably than big families ever did. This means a shrinking number of working people have to support a growing number of elderly.

Currently there are four people of working age for every pensioner in the European Union. By 2040 it is estimated there will be just two. The result is a growing strain on some EU economies as the tax burden rockets.

Which countries are worst affected and why?

Those where birth rates have fallen, or are falling, from a relatively high base. The pain is intensified when a big proportion of pensioners' income is paid by state PAYG schemes. Countries in this group include Germany, Italy and France.

For example, Germany's state pension system was reportedly DM10bn (£3.5bn) in deficit in 1995, when contributions were increased to a steep 19.2 per cent of taxable earnings.

It may get worse. By 2030 pension payouts will have risen to a hefty 15 to 20 per cent of gross domestic product in all three countries if maintained at present levels.

Both France and Italy have cut state pensions and introduced measures to encourage more private provision. The cost was rioting in the streets and a watering down of the reforms.

Will the UK be affected too?

The bulge in the proportion of elderly in the population is not expected to strain the UK's public finances too badly. That is partly because the birth rate has not fallen heavily. Moreover state PAYG schemes account for a relatively small part of pensioners' income.

For example, the UK basic state pension is worth only 12 per cent of average adult male earnings. An equivalent German scheme is worth 60 per cent of average adult male earnings.

If state provision is so low, where do UK pensioners get their income?

Many get a big chunk of it from private funded pension schemes. The beauty of the schemes is that each new generation – typically with assistance from employers – provides for its own retirement by investing in tradeable assets, such as shares. These rise in value over time, reducing the amount of contributions required.

Bill Birmingham of the National Association of Pension Funds, a trade body, estimates the UK has £600bn in private pension assets, a huge bulwark against future needs. The Republic of Ireland and the Netherlands also have big funded pension systems, and are also thus relatively immune from the financial squeeze affecting some other EU nations.

What is the European Commission doing to sort out the problems of those states squeezed by big unfunded pension liabilities

The commission is making belated attempts to encourage them to increase funded provision. The greater the proportion of pensions that can be provided by this means, the lower the tax burden on future generations of workers to support pensioners.

Are there any pitfalls?

The snag of shifting from PAYG to a funded system is that one generation of workers has to pay twice: once through taxation used to pay pensions to their parents' generation; and once in contributions to their own retirement funds.

There is another difficulty with funded schemes. Governments can raid them – in a roundabout way – to finance public spending. The preferred method is to impose restrictions on pension funds' investments that force them to buy government bonds.

This captive market allows the government to lower its cost of borrowing at the expense of funds' long-term returns. Funded schemes can thereby become tributaries of a PAYG system.

For example, Belgium requires 15 per cent of pension fund assets to be in Belgian government bonds. Other states merely specify a percentage of assets that have to be held in the local currency, referred to as "currency matching". That has a similar affect, given the fondness of continental investment managers for sovereign bonds.

But isn't one of the main aims of the EU that capital should be able to slosh freely over national borders?

Quite so. There are suggestions that the commission could challenge national investment restrictions through a test case in the European Court of Justice, in which it would argue they contravene the Treaty of Rome, on which the EU is founded.

Meanwhile, it has published a consultative document, which makes the case for freeing pension funds to seek the best rate of return on assets, both in the EU and outside it.

The paper suggests a system of prudential regulation for pension funds, with the aim of putting paid to member states' claims that investment restrictions are needed to protect funds from taking excessive risks. Legislation may follow.

Jonathan Guthrie

Stephanie Flanders · Economics Notebook

Clear thinking on corruption

Rich countries cannot solve the problem by mere decree

High on the agenda at the Group of Eight summit this weekend were efforts to "sustain growth and development in developing and transition countries". And high on the list of policies to do *that* was making corruption a criminal offence in all developed countries.

Who could possibly disagree with that? you might ask. After all, every country in the world has formal laws against bribing officials on their own soil. Why should so many consider it legally more acceptable to use backhanders to seal the deal in other countries?

The answer is that they should not. OECD ministers were right to agree to change things at last month's meeting in Paris and the summiteers at Denver were equally right to identify corruption as an important obstacle to growth in poor countries. But it would be folly to think rich countries could affect the level of corruption in these nations by decree.

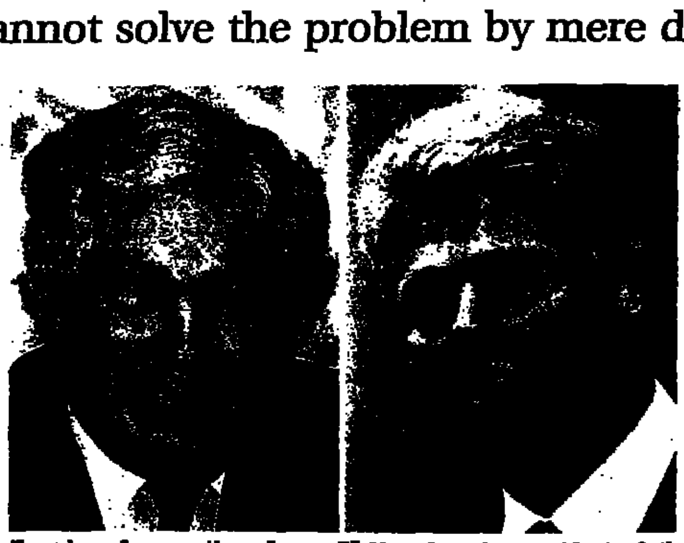
For starters, such laws are not very effective, as is shown by a recent study by Shang-Jin Wei, a Harvard economist. Ever since the US Congress passed the Foreign Corrupt Practices Act (FCPA) criminalising bribery in the wake of Watergate in 1977, US businesses have claimed it was undermining their ability to compete for foreign contracts. US lobbying at Denver and Paris derived less from an altruistic desire to clamp down on wrong-doing than a wish to level the playing field. Yet Wei finds that the law does not seem to have made American foreign investors behave much different from other ones.

The author used surveys by Transparency International, an anti-corruption pressure group, and others to order 33 developing countries by their perceived level of corruption. Controlling for other factors, he found that corruption tended to discourage foreign direct investment (FDI); in effect, by acting as a tax on foreign business.

For example, Wei calculates that moving from a Singaporean-style low level of corruption to a Mexican one had the same effect on inward foreign direct investment as raising the marginal tax rate on foreign investment by more than 20 percentage points.

Surprisingly, US foreign investors turn out to be no more – or less – inclined to do business in corrupt countries than anyone else. As Wei notes, this could mean that non-US investors do not need the threat of a criminal case back home to discourage them from bribing foreigners; or, more likely perhaps, that "American firms are just as clever as other investors at finding covert ways to pay up."

The result has a broader lesson for governments seeking to crack down on corruption: formal laws and regulations are seldom enough to change behaviour. No country in the world legally permits companies and individual to bribe domestic officials. The question is whether the system in which officials are actually operating is conducive to those rules being enforced.



Enemies of corruption: James Wolfensohn, the president of the World Bank, and President Clinton

As the World Bank, the International Monetary Fund and others have frequently noted, certain policy changes can help lower corruption by lowering its rewards. Abolishing exchange controls, for example, and/or cutting public subsidies to industry reduces the scope for officials to earn money in return offering companies special treatment. Many structural adjustment programmes sponsored by those organisations have helped lower corruption by forcing countries to pursue these policies. Yet in several cases the same programmes may have inadvertently worsened corruption.

For example, in seeking to reduce the budget deficit quickly, the IMF has sometimes prodded countries to impose tax rates which go beyond what people consider legitimate; and, indeed, what their inefficient (as yet unreformed) tax system can collect. Arguably, this has recently been the case in Russia. With a high tax rate – and weak enforcement capacity – taxpayers have a large incentive to avoid payment or bribe tax collectors, and officials have an incentive to let them.

Another, related, corrupting influence of some structural adjustment policies concerns public sector pay. Governments have often been pressed, in the early stages, to reduce borrowing by cutting the public sector wage bill. Since severance and other conditions make it hard to cut employee numbers quickly, this has often meant sharp declines in real public sector pay.

In Africa, this is now widely accepted to have increased petty corruption by making officials much more susceptible to bribes. Some World Bank insiders have expressed surprise, given the extent of the pay squeeze, at how many officials stayed honest.

Development workers are now well aware of these problems. But many would argue that there is deeper problem in donors' approach. This relates less to the reforms they promote than the means they sometimes use to promote them.

Almost everyone agrees that, in the long term, cleaning up government means building institutions which promote public accountability and the rule of law, and earn widespread public respect for doing so. That means guaranteeing basic civil liberties and economic rights and encouraging economic and political competition so that people can hold corrupt governments to account and, if necessary, get rid of them.

In the thrill of reform, these niceties are often ignored. Understandably, outside supporters of reform fasten on to the individual or group promising change, and forgive them their roughshod means.

But replacing one set of cronies with another – even if they are "our" cronies – cannot be a long-term recipe for growth and stability. New people at the top, like new formal rules, will change little if the real rules of the game are as corrupting as before.

"How taxing is corruption on international investors?". National Bureau of Economic Research Working Paper. May 1997.

Victoria Griffith examines the trend towards external appointments in US companies

Storming the battlements

Things are changing at the top of US corporations. It used to be standard practice for a chief executive approaching retirement to groom a successor; now, filling the top job from within the organisation is far from automatic.

Just how attitudes to management succession have changed is illustrated by the recent news that Xerox, a company that once selected senior managers almost exclusively from within its own ranks, had raided International Business Machines to find Richard Thoman and appoint him as its new president.

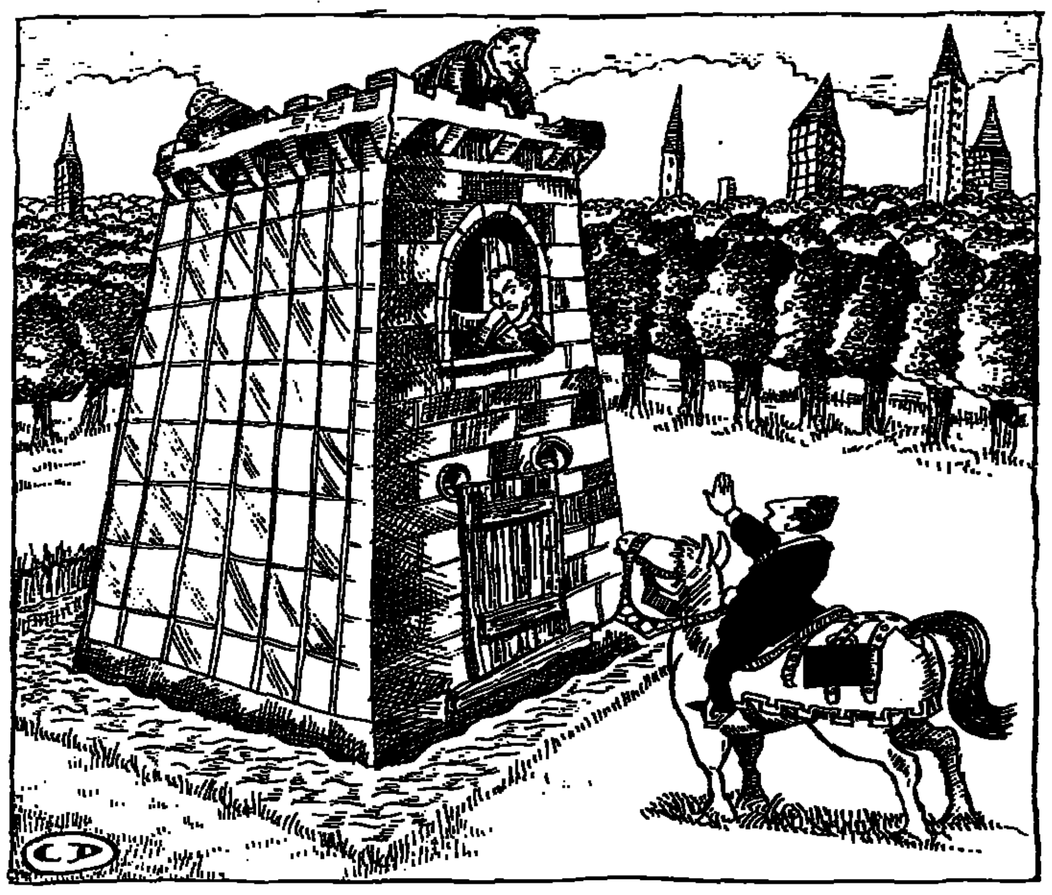
Jeffrey Sonnenfeld, a professor at Emory University in Atlanta and writer on management succession issues, has monitored this trend towards external appointments. "There's a decidedly pronounced pattern favouring outside hires right now. It's almost a Messianic zeal to find the new saviour, and it represents a fundamental change in the way US companies are managed," he says.

With the strong US economy allowing many companies to post healthy profits, it seems an odd time for US corporations to shun internal candidates. In the past, outside appointments at the top were usually reserved for organisations that had clearly lost their footing. New managers were brought in to effect radical change, which often included extensive lay-offs.

But now, it seems, even healthy companies are increasingly looking outside. Xerox's appointment of Thoman, who was IBM's chief financial officer, is one example. Another prominent one was Walt Disney's appointment of Michael Ovitz, a former top Hollywood talent agent, as president of the company almost two years ago.

So why has this trend taken hold? One reason, according to succession specialists, is that corporations feel they are living in a time of profound change. Technology and growth is altering the way many sectors do business, and corporate boards may feel they need to respond with a radical shift in leadership.

Those boards, moreover, have become far more powerful in determining the way a company is run. Senior managers may have far less to say than they once did about who should take over, making it more difficult for a chief executive to move a protégé into the top position.



"Corporate boards are being very assertive these days about expressing new visions for companies," says Anne Fawcett, a partner with Caldwell Partners, specialists in succession planning. "And bringing someone in from the outside is an easy way to signal that there are changes afoot."

An added bonus may be the publicity an external search generates. The "competition" set by Ben & Jerry's, the ice-cream company, to find a new chief executive two years ago, attracted international media attention. If the promotion had been internal, it probably would have been largely ignored.

"Often, you'll see the stock price of a company rise after an outside chief executive is brought in," says Kenneth Nowack, president of Organizational Performance Dimensions, which advises corporations on succession matters. "Investors seem to respond well to the new vision thing." Certainly, Xerox's share price lifted 4 per cent when Thoman's appointment was announced, while IBM's fell slightly.

Yet some management theorists question the wisdom of doing away with internal promotions at a company's most senior level. An important advantage of appointing internally, it is argued, is a detailed knowledge of the organisation and its staff. Those appointed from the outside themselves concede that it can be difficult to get up to speed quickly on the way the company works.

"That was my biggest challenge, trying to learn the organisation and people in a very short time," says Elliott Wahle, who took over last year as chief executive at Dylex, the Canadian retailer.

Bringing in an outsider can be risky as well as exciting. "You've got much better performance data on internal managers," says Sonnenfeld. "Throw the fishing line outside the firm and you don't know what you'll be reeling in." There is also the concern that an outside appointment can damage employee morale and loyalty. "You're sending a message that no one there is good enough to take over," he says. "That can be devastating."

On the positive side, Wahle points out that an outside appointee "may not have the benefit of history, but you're not bogged down by it, either. You can see things with fresh eyes."

Some industries are changing so rapidly that familiarity with the old way of doing things loses value. Meanwhile, other companies, including many Silicon Valley computer groups, are simply too young to have built up an internal pipeline of senior management candidates.

There are successes and failures on both sides of the fence. The outside appointments at Ben & Jerry's and Walt Disney, for example, exited after short and rocky stints at their companies. On the other hand, Wal-Mart, the discount retailer, UPS, the courier service, and Home Depot, the hardware chain, have all done remarkably well under a strict system of internal appointments.

Meanwhile, Dylex's stock price has surged nearly sevenfold since Wahle's takeover last year. And Nowack says he advised a southern Californian utility company that has gone through four chief executives in four years after refusing to consider an external appointment.

An outside executive search may make sense, say consultants, when the corporation's old operating models simply stop working. "If the company the new chief executive is coming from met a similar challenge – say they had experience in taking a local company national, and you want to do the same thing – it is probably a good move," says Nowack. "If it's done just for the hype, or because the company simply hasn't bothered to groom anyone internally, it may be a rocky transition."

Peter (left) and James Mullen: taking on the established shirt makers

PARTNERS

Thomas Pink

Dubliners Peter Mullen, 45, and his brother James, 37, established the shirt makers Thomas Pink in 1984. They now have 14 shops throughout the UK, nine of which are in London. Outlets in Dublin and New York will be opening this autumn. Their annual turnover is £20m.

James: "In the mid-80s there was definitely a market for good, affordable shirts. Jermyn Street wasn't going anywhere in a huge hurry because their prices didn't appeal to the younger person.

We set out to take on the established shirt makers, which meant buying a sample from each manufacturer and taking it apart. The idea was to get the best bits from each and come up with a prototype. On some of the more expensive, older designs, we noticed a small butterfly gusset which is why we decided to put our trade mark, pink triangle, on the bottom of each shirt. We knew things were going well when men started dropping their trousers at dinner parties, to show off their pink bits! Also, I think the name helped. Thomas Pink was an 18th-century tailor who made hunting coats, so our company sounded like it had been around since time immemorial.

Peter's background was in commercial property so he found us a brilliant first location, in Fulham. He's rather good at finding shops. He likes negotiating leases, briefing architects and getting involved in the whole design process. Neither of us are particularly financially astute, or good at day-to-day management. The deal is: he opens the shops; I get the customers in. Once you've got the product right, the key part of any retail business is customer relations. We wanted to get away from the traditional stuffy Jermyn Street image of: "I've made this wonderful shirt, if you ask nicely I might sell it to you."

Peter: "We originally thought, albeit naively, that we could set up a new business and carry on doing our existing jobs: James in marketing, mine in commercial property.

It was totally unrealistic because no matter how much you prepared, every day would throw up something new and unforeseen. Organising a till might seem like the easiest thing in the world, but not if you don't know where to go, or what to get. The important thing is to make sure you haven't forgotten something, like to register for VAT, on the first day of trading. A mistake like that can put you back three months. Fortunately, I'd stopped being an estate agent by the time we opened so everything was in place.

We had such a feeling of optimism at the start, but it wasn't until after our first January sale that we became really confident. In 1988 we started a mail order service, which was something our customers led us into. They kept ringing the store asking us to send them particular styles so in the end we started the catalogue. With the mail order we've been able to collate a data base which is invaluable when it comes to opening new stores. Neither of us imagined we'd have more than three shops in London, but so far, it's been our growth centre. When we opened in Edinburgh, it took us so long to get the shop off the ground that we've had second thoughts about other northern cities. It would seem more people buy our shirts in America than they do in the whole of Scotland, which is why we're opening in New York next and not Glasgow."

Fiona Lafferty

Finance role change

The traditional role of the finance function, overseeing and controlling internal corporate resources, is evolving. The trend is for chief financial officers to spend increasing amounts of time leading shareholder value initiatives and focusing on strategy.

Evidence of the trend comes from The Conference Board, the business network and research organisation, in a report published today. The research was sponsored by Price Waterhouse, the accountants and consultants.

Of 300 chief financial officers in the US, Europe and Asia surveyed as part of the study, 75 per cent said they led shareholder value initiatives in their companies. These included: corporate restructuring and cost reduction; important capital investments; and shareholder communication.

Cedric Read, Price Waterhouse partner in London, says the study shows chief financial officers are taking "ever more strategic responsibilities in their companies and becoming true partners to the chief executive officer". He adds: "it is clear that managing and meeting shareholder expectations is becoming the primary role of top financial executives around the world."

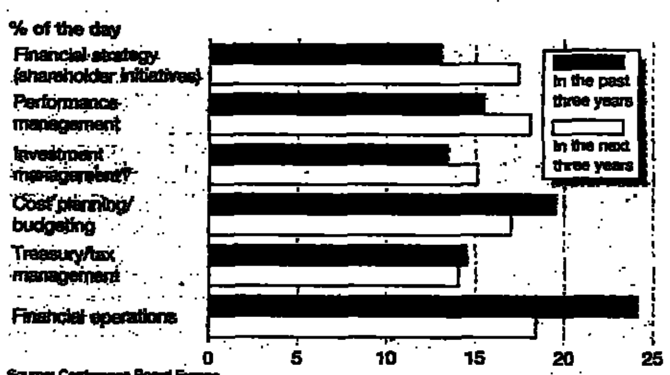
The senior finance staff surveyed said that, over the past three years, over 24 per cent of their time had been taken up with financial operations; this was projected to drop to about 18 per cent. Time spent on financial strategy and shareholder initiatives was projected to rise from 13 per cent to over 17 per cent (see chart).

Chief financial officers whose company's shares outperformed the competition were: most likely to spend more than 20 per cent of their time with the heads of business units; make the development of systems to support decision-making a top priority; and rank re-engineering finance processes as the most effective way of reducing costs.

CFO 2000: the global CFO as strategic business partners, by Stephen Gates. Europe: (00) 322 675 5405; fax (00) 322 675 0395. US: (001) 212 339 0345. $120 for non-members, $30 for members.

Diane Summers

The working day of the chief financial officer



Source: Conference Board Europe

Jobs for the primary school boys and girls

Lucy Kellaway

When it comes to thinking about your career, you can't start too young. Indeed, the main problem with today's primary schools (along with the fact that they no longer teach the 3Rs) is that there is a scandalous lack of any careers advice.

This is the view of a wise body of businessmen at the Confederation of British Industry which pronounced on primary education last week. Can they really be serious? Careers advice in *primary schools?*

Picture the scene: the careers adviser sits in a little room while small children file in telling him that they want to be footballers or Spice Girls. The careers expert patiently explains to each one that a job at ICI or a career in computers might be more suitable.

At best this sort of thing sounds pointless. At worst it is an invitation to make children worry needlessly. They have the rest of their lives to think about business, after all.

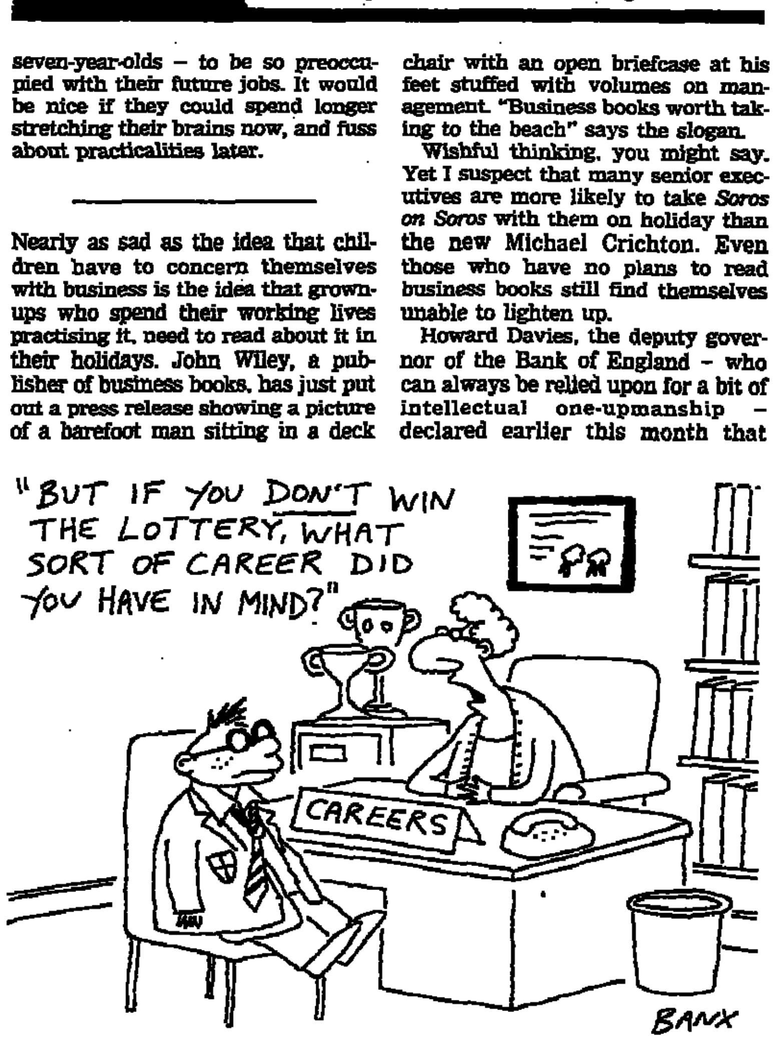
The CBI view continues a trend which has already gone too far. Those of us who were educated in the 60s and 70s did not give a thought to our careers until the third year of university at the very earliest, and that seemed time enough. (I remember a perfunctory effort at careers advice in the sixth form at secondary school; I was told that as I had no aptitude for words, I should consider something technical.)

But now ambitious sixth formers have their own CVs and know how to write a good business letter. At the FT we have just received a terrifying package from a 17-year-old comprehensive school girl looking for work experience in the holidays. Her CV is fuller and more professional than most of us could manage now. Impressive though it was, one cannot help wondering if it is healthy for 17-year-olds – let alone seven-year-olds – to be so preoccupied with their future jobs. It would be nice if they could spend longer stretching their brains now, and fuss about practicalities later.

Nearly as sad as the idea that children have to concern themselves with business is the idea that grown-ups who spend their working lives practising it, need to read about it in their holidays. John Wiley, a publisher of business books, has just put out a press release showing a picture of a barefoot man sitting in a deck chair with an open briefcase at his feet stuffed with volumes on management. "Business books worth taking to the beach" says the slogan.

Wishful thinking, you might say. Yet I suspect that many senior executives are more likely to take *Soros on Soros* with them on holiday than the new Michael Crichton. Even those who have no plans to read business books still find themselves unable to lighten up.

Howard Davies, the deputy governor of the Bank of England – who can always be relied upon for a bit of intellectual one-upmanship – declared earlier this month that his idea of the perfect beach read is Balzac in French.



On the subject of France, I see that Saint Gobain has abandoned its quaint Gallic practice of deciding whether or not to hire somebody on the basis of their handwriting. The company feels that graphology, favoured by many employers in France, is not the thing for a company trying to make it internationally. So in the name of globalisation it has abandoned the practice lest it upsets the Anglo Saxons.

While it is true that few UK and US employers would dream of using graphology for recruitment, it is hard to see what their scruples are. After all, they swear by other pseudo scientific techniques such as psychometrics, which do not seem much more reliable. It is, of course, ridiculous to decide that someone is extrovert, or sensual or whatever based on the way they form their *g*s. Yet that does not mean that a person's handwriting holds no clues at all.

Part of the problem with graphology is graphologists, who claim far too much for their trade. They maintain that handwriting analysis can only be attempted by those with years of training; in fact it is better attempted by someone whose only qualification is common sense.

For example, if I were trying to hire someone to be a chief executive of a big company, I would prefer someone who did not put blobs on top of the letter i. I would also not look kindly on candidates who wrote in block capitals and green ink.

Human resource people would have us believe that there is some science in what they do. This is baloney. Hiring the right person is an art, and a difficult, highly subjective one at that. What is needed is not better recruitment systems, but more care, judgment and flexibility.

BUSINESS EDUCATION

Double deal

Mari Sako has two things to celebrate this week. She has recently been awarded her first professorial post, and now she can take up the job safe in the knowledge that the business school she will join – Oxford – has the funding and the university approval to go ahead.

Sako, formerly reader in industrial relations at the London School of Economics, will take up the P&O chair in management studies (international business) at the Oxford school of management, to be renamed the Said business school, in October.

Sako is one of four professors, including director John Kay, to be appointed at the school, which received approval from the university's ruling body, the Congregation, last week. The school will occupy a site next to Oxford railway station and will cost £45m to set up, including £20m from benefactor Wafic Said.

The school still has two further chairs to fill, one in operations management and the other in marketing. The school is also in the process of appointing 20 lecturers in management studies.

DB

Unicon aims to become more international, writes **Della Bradshaw**

Executive decisions

For the first time in its 25-year history, Unicon, the International University Consortium for Executive Education, has chosen a non-US person as chair for the coming year.

Michael Pitfield, director of marketing at Henley management college, is English through and through. But his focus for the coming year will be to make Unicon, which was set up to promote university-based executive education, much more international.

In particular Pitfield, who was elected to the job last Friday after a year as vice-chair, wants to get more schools from the Asia-Pacific region to join the organisation. And he wants to have representatives from more non-US schools on the governing board.

Of the 12 representatives on the board only two – Pitfield and James Pulcrano, director of marketing for executive programmes at IMD in Lausanne – are from schools outside the US.

And of the total 62 member schools only just over a dozen are from outside North America.

"My aim is to have the first Unicon spring conference in the Asia-Pacific region by 2000," says Pitfield.

Unicon's main thrust in promoting executive education is to hold two conferences a year. The autumn conference is for member schools only to discuss trends in short courses, while the spring conference is a mix of business school faculty – each member school can send just one representative – and leading corporations, all of which are invited by the schools.

Unicon also has a research committee, funded through the member schools' annual subscriptions of $600 (£370) a year, to investigate trends in executive education.

Pitfield has taken over at Unicon at a time when executive education is changing rapidly. The most significant topic at the 1997 spring conference, held at IMD, was the implications of technology for executive courses. "Much more information will be delivered through the Web," concludes Pitfield. "Faculty will become guides and route-planners rather than information providers."

Even the nature of business schools is changing, providing Unicon with one of its biggest headaches: when is a university not a university and should the Unicon entry qualifications be altered?

Henley itself, Pitfield's home base, is not technically a university although it was recently granted degree-awarding powers. Nor does one of the other four British members of Unicon, Ashridge, have university status. But, says Pitfield, because their aims are directly comparable to those of their university counterparts, they meet the entry criteria.

By comparison the Arthur D Little School of Management in Boston, part of the management consultancy group, was refused Unicon membership because it was a corporate university.

That said, with corporate universities and 'for profit' educational organisations flourishing in the US, Pitfield concedes that Unicon may soon have to reconsider its membership criteria.

Michael Pitfield is the first chair of Unicon from outside the US Malcolm Watson

NEWS FROM

CAMPUS

Insead hedges its politics

One could hardly blame Insead, in Fontainebleau, for being smug this week. One of its 'old boys', William Hague, has been elected as leader of Britain's Conservative party. Hague graduated with an MBA in 1986.

Insead, being politically correct on such issues, points out that they can also count among their MBAs Sir David Simon, minister for trade and competitiveness in Europe in the UK's new Labour government.

Insead: France 1 60 72 40 00

Silicon valley course in Europe

European technology companies are now offered a strategic management course run jointly by Iese, in Barcelona, and Stanford from California's Silicon Valley.

The two-week course, which will run in August and September in Barcelona, studies issues such as new product development. It is aimed at managers who work for, among others, electronics, pharmaceutical and software companies.

Iese: Spain, 343 253 4200

London gets new business school

The Open university has validated undergraduate business courses offered by the Regents business school in London's Regents Park. The school can now offer degree courses from September.

The first courses will be three-year BA degrees in international business, marketing or finance and accounting.

Regents business school: UK, (0)171-487 7654

Bowled over by course success

Cricket lovers will be pleased to know that Bob Appleyard, a stalwart of English cricket in the 1950s, is to be awarded an honorary doctorate from Bradford university. Appleyard helped set up the management education programme for cricketers at the Bradford management centre.

Bradford management centre: UK, (0)1274 384388

MARKETING

Brand-builders perceive pattern

Share price data over 15 years point to a shift in focus, says **Alison Smith**

Companies which base their businesses on brands have outperformed the stock market during the past 15 years, according to unpublished research by Citibank and Interbrand, the brand consultancy.

Their analysis compared the share prices of a group of 68 companies dependent on brands with the performance of the FTSE 350 index, and found that the branded group did consistently better.

The branded group includes such companies as Cadbury Schweppes and Unilever which rely on the brands they sell, and businesses such as British Airways where the corporate brand is itself significant.

But during the past five years, the share prices of this same group of companies did less well than the FTSE 350. The research revealed a similar pattern in the performance of heavily-branded companies in the US.

Raymond Perrier, brand valuation director of Interbrand, says that the record of branded companies since 1992 suggests that "branded goods companies, in an effort to meet expectations for short-term performance, were sacrificing longer-term brand-building investment and their share price reflects this.

"Only now are they beginning to reverse that trend".

The research concludes that during the growth period of the 1980s companies were able to generate cash from the brands they owned and did not have to focus so much on investing in them because they were not under such competitive pressures as they are now.

However, markets in developed countries are now mature and the margins of branded companies are at risk because of the growth of own-label sales and the increasing power of retailers.

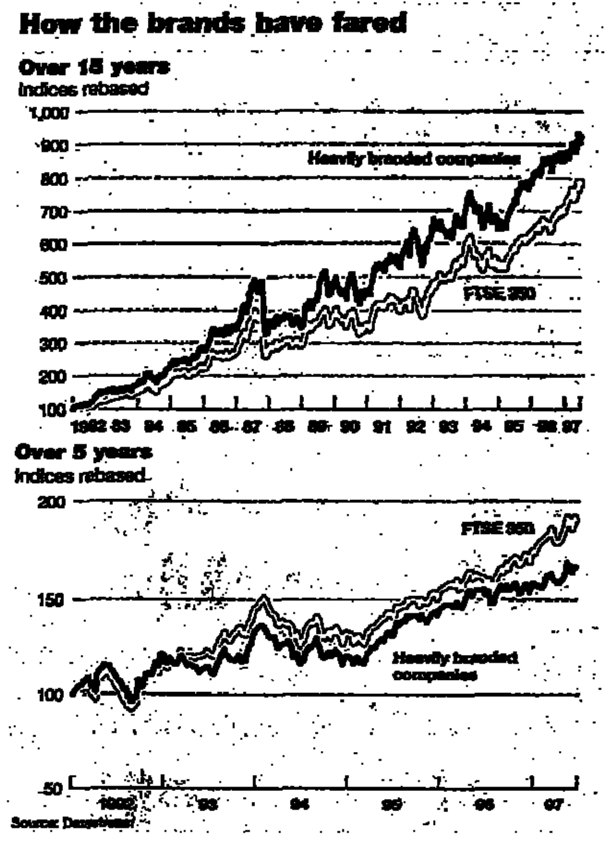
Patrick Hearne, a vice-president of Citibank and the co-author of the research, says the difference in the relative performance of branded companies over the longer and shorter time spans shows how important it is for them to adopt an approach to managing their brands which is based on creating value for shareholders.

"I think we will see more companies re-focusing their brand portfolios, and concentrating on the brands that create value for the business."

He argues that this contrasts with the way some companies have allowed marketing to be too detached from the financial disciplines applied to other aspects of their business.

"In some cases you need to make the case and win board approval to put up a plant, but there is no similar rigour in setting the marketing budget."

How the brands have fared



Source: Datastream

Ad in the News • British Airways

A £1m formula going stale

From the first few notes of Delibes' *Lakme* you know it's a British Airways commercial.

The multi-cultural images convey the universal joy of shared experience: from excited Italians at a wedding and an American footballer enjoying applause, to a Chinese woman being handed her grandchild, and an African boy enjoying the rain.

It's all beautifully shot with the production values we've come to expect of British Airways commercials. And yet, somehow, the sum of the whole is less than its parts.

With the bold recent corporate re-design garnering acres of news comment about the replacement of the union flag with an eclectic selection of tail designs, British Airways has in one swoop done away with its somewhat staid and nanny-like image. You may not like it, but you can't fail to have noticed it, or to have formed an impression of the airline based on it.

That effect has long been the preserve of British Airways' advertising, ever since the Saatchi brothers first coined the "world's favourite airline" tag and showed Manhattan Island flying across the Atlantic.

Multi-cultural images aiming at worldwide appeal

A succession of bold commercials followed.

The advertising has become a victim of its own success. Each new "masterbrand" epic commercials is designed to run in ever more countries around the world – that's how BA justifies the £1m ($1.6m) production budget for each ad. The more countries an ad has to run in, the easier to understand the images need to be (dialogue is out of the question).

Clearly, from this position it is all too easy to create bland, lowest common denominator advertising – we see it every day on our TV screens by way of lifestyle ads for yoghurt, chocolate and courier companies.

But both BA and M & C Saatchi expend an enormous amount of time and money in trying to make their ads stand out. They have unquestionably achieved this in the past, but it seems that they are reluctant to alter the formula.

We've now seen images like these so many times we've become inured to them. Rivals like Delta have begun to create glossy global ads of their own. They are extravagant films full of universal emotional experiences and no dialogue, set to a classical soundtrack.

The numbing effect is worse in Britain where there is a history of the epic corporate commercial with its global imagery, and where the production and writing standards of most commercials is so high.

In less sophisticated TV advertising marketplaces this ad will shine, but it still won't have as much impact as seeing one of the new painted planes. The ad is mildly disappointing, if only by British Airways' own exacting standards.

Stefano Hatfield

The author is editor of Campaign.

ADVERTISING

Slikies and slinkies deserve attention

Campaigns based on traditional social classifications are risky, says **Meg Carter**

Single women – particularly single women with children – are overlooked by many advertisers, according to analysis which contradicts traditional perceptions of one-parent families as low-income, low-priority consumers.

The findings, from London media specialist Media Solutions, show that significant numbers of single women have above average income and suggest that many brand owners are ignoring up to 15 per cent of UK households.

Media Solutions analysed population and lifestyle data across several consumer groups. It identified two previously unrecognised female groups: "slikies" and "slinkies".

Slikies' are single ladies on high income – defined as £25,000 a year or more – with kids up to 15. The company identified 995,000 of them, accounting for 5 per cent of all households.

Slinkies are also single ladies on high income but have no kids. There are 2.2m in the UK, about 10 per cent of households. "These are women who are not married. Some may be widowed, others divorced but the point is none rely on a partner financially," Media Solutions managing partner John Carter explains.

"Slikies are classically time-poor, money-rich consumers although theirs is, undoubtedly, an expensive lifestyle with childcare and other associated costs. Slinkies are clever, ambitious and status-conscious. Advertisers ignore these women at their peril."

Yet, Carter insists, many do: "The traditional non-working housewife is still a currency used to buy many media campaigns," he says.

Companies aiming at mothers with young children and upmarket consumers with family-orientated or premium products – such as household goods, car or hi-fi brands – are amongst those losing out, he believes.

For example, most ads for household products appear on daytime television – when slikies and slinkies are at work.

Increasingly, advertisers recognise the advantages of targeting consumers by attitude and lifestyle, but they buy media for their campaigns according to basic demographics such as age, occupation and sex.

These are based on traditional social classifications by professional status, ranging from A (higher managerial, administrative or professional) through B to C2 (skilled working class) and D (unskilled working class).

The rise of the service sector and decline of traditional manufacturing have led to a shift in the workforce with a perceived shift upmarket – ie. more ABC1s and fewer C2DEs, Carter says. That does not, however, take into account either consumer attitudes or disposable income.

"Demographic clusters have lost their usefulness," Carter claims. "Although this is being taken into account at the planning stage, it is not taken into account when media is bought. We think it's about time it was."

Wanted: airborne concierge

The scene is a training session for airline staff. Staff sit at a table, eyeing their watches. Their instructor is late.

"Now you know," he tells them when he arrives, "how passengers feel when their flights are delayed."

Somewhere in the friendly skies, a passenger is caressed by dry ice, fawned over with luscious food, soothed by romantic music. "Wouldn't it be great," says a voiceover, "if we could all fly airline commercials".

These advertisements are part of a campaign launched by US giant United Airlines, which took a long, deep look at the way customers felt about flying – and didn't much like what it saw.

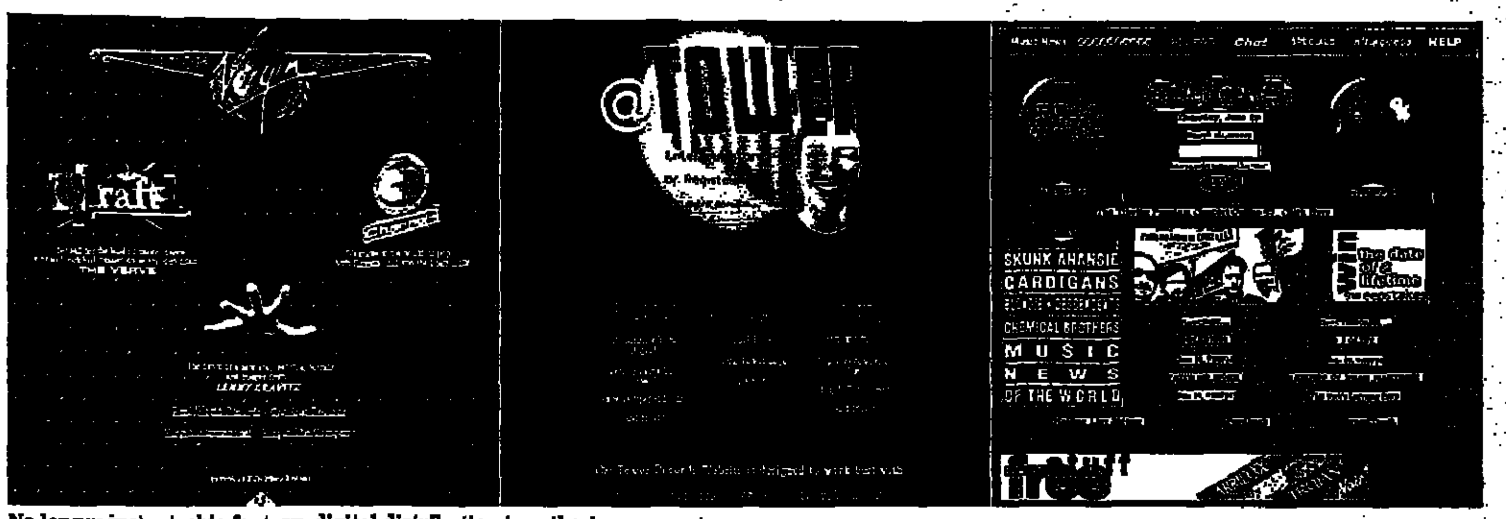
The airline's chairman and chief executive officer Gerald Greenwald says: "It would be disingenuous of me to say we weren't already aware of the fact that air travellers were unhappy. What shocked us was the depth of the dissatisfaction we uncovered".

An international study by the Chicago-based Cambridge Group and UK company MSB (Managing the Service Business) found that the US airline industry consistently fails to meet passengers' expectations and needs and confirmed that air travel can be a frustrating, isolating experience for business travellers.

When things go awry they feel and at the airlines' mercy – as so much of what happens is beyond their control. Above all, they want good service, with airline employees acting like concierges at top hotels.

Roger Bray

MARKETING / ADVERTISING / MEDIA



No longer just a techie fantasy, digital distribution is gathering momentum

Digital music market tunes up

The way albums are sold may be about to change, says **Alice Rawsthorn**

In August, a couple of hundred German families will be thrust to the forefront of music technology, when they start an online experiment to buy albums from their homes delivered directly to their computers.

The trial, run by Deutsche Telekom, will set a precedent in the global music market. It will be the first online project to involve the "big five" record companies: PolyGram of the Netherlands, Japan's Sony, Warner of the US, the UK's EMI and Germany's Bertelsmann.

Once dismissed as a techie fantasy, digital distribution is now one of the hottest topics in the music industry. The critical questions for the world's record companies are: how big the online market will be – and who will control it?

Music is already one of the most popular themes on the internet, largely because the demographic characteristics of frequent record buyers – young and well-educated – are identical to those of computer enthusiasts.

Successful rock groups have scores of unofficial web sites launched by their fans, and official sites run by their record labels. Equally popular are online chats, in which musicians reply to e-mailed questions, and netcasts, where concerts are relayed over the internet.

At present, official web sites and netcasts represent an additional outlay for record labels and artists. They may eventually be able to offset the cost from advertising and sponsorship. Jupiter, a research consultancy, predicts that the advertising revenue generated by music sites in the US will grow sixfold this year to $12m (£7.2m) and reach $650m in 2002.

Yet the commercial potential of internet advertising pales beside that of selling recordings online. A nascent digital music market has already emerged in the US, pioneered by specialists such as CDnow, a mail order business launched in 1994 by Jason and Matthew Olim, 24-year-old twins, from the basement of their parents' home.

Three years later, CDnow sells 250,000 albums, videos and books from its website. Consumers e-mail their orders and credit card details to the company, which posts the products to them. Established US record retailers, such as Tower and Camelot, have introduced internet ordering services as extensions of their mail order operations. The cost of setting up such sites is less than opening a store.

Online music sales are still negligible. Jupiter estimates their value at $18.2m in the US last year, and forecasts $47m (less than 0.4 per cent of total sales) this year. But consumers clearly enjoy buying music on the internet, not least because they can preview albums by listening to short samples of the music.

The next phase in the digital music market's development will be the launch of fully fledged online services whereby music is delivered directly to the consumer's computer in the form of a digital signal, which is then stored on the hard disk, and can be recorded on a $500 CD recorder.

Recent advances in technology have reduced the time taken to download a song from such services from more than an hour a year ago to only a few minutes using a high-speed modem. Hundreds of pirate "digital jukeboxes" have emerged, principally in the US, as latterday equivalents of 1960s pirate radio stations. Most of them are run by young fans who post compact discs on the internet, and allow people to download them for free.

The Recording Industry Association of America, which represents the US record companies, prosecuted three unauthorised jukeboxes for breach of copyright earlier this month. The prospect of anyone with internet access being able to obtain new albums for nothing poses a serious problem for the music industry. Fortunately for the record companies, the jukeboxes are difficult to find, and often close down bewilderingly quickly. But their emergence has encouraged the industry to accelerate its own plans for digital distribution.

Until now, the "big five" have adopted a cautious approach, and have eschewed the increasing number of legitimate digital jukeboxes, which relay music from independent record labels, or unsigned acts. They had planned to wait until industry-wide technology to control access to digital music signals becomes available next year.

But several digital distribution services now claim to have removed the need for such technology by developing "secure" systems. EMI is in talks to participate in an online music trial, which started this spring (using music from independent labels) in 400 French homes on Lyonnaise des Eaux's high-speed cable television network. The "big five" are negotiating with Deutsche Telekom to join this summer's pilot test, as a precursor to a test in thousands of German homes next spring.

One attraction of the German project is that the record companies will act as content providers, thereby retaining control of their copyrights, with Deutsche Telekom being paid a line charge by consumers. Such services could be highly profitable for record labels, which will keep the 50 per cent of the purchase price that now goes to the retailer.

Jupiter estimates that the digital music market may be worth $1.6bn in the US, or 7.5 per cent of the total market, in 2002. It may grow even faster, if interactive television and telecommunications networks, like Lyonnaise's and Deutsche Telekom's, become widely available.

In the long term, the "big five" could nurture a lucrative new market by distributing music digitally on these services. They could also sell music from their websites, although record retailers are better placed to do that, as their brand names are more recognisable.

Judging by the progress of the digital music market, its development will not herald the demise of record stores and the "big five", as over-optimistic techies once predicted. Digital piracy appears likely to be a persistent problem, and there is a risk of internet discounting destabilising the price structure of the music market, as it threatens to do in the book market.

But these difficulties are offset by the potential benefits of digital distribution. It offers an opportunity for the industry to cut costs, and to expand its market by making it easier for consumers to buy music – as the participants in Deutsche Telekom's trial will discover.

Raymond Snoddy · Media

Protocol observed

The headlines at the Amsterdam summit last week understandably concentrated on the seismic issues of the single currency and border controls, but the heads of state also found a moment or two to adopt unanimously a rather important protocol on the media.

The protocol is significant because it formally recognises the position of public service broadcasting within the European Union.

Surely, some might ask, organisations like the BBC in the UK or ZDF and ARD in Germany are well enough recognised already, and backed in most cases with compulsory licence fees underwritten by law?

The importance of the protocol is that it clarifies for the first time that the money that goes to public service broadcasters is compatible with European competition rules. The document closes off any threat of a challenge to the EU's public service broadcasters from increasingly powerful private broadcasters on the grounds that licence fees are illegal subsidies.

It will be interesting to see whether this protection extends to the launching of cable and satellite channels. Germany's private broadcasters, for instance, are outraged that ZDF and ARD have been allowed to use special licence fee supplements to launch satellite channels.

The BBC, by contrast, has promised a complete separation of licence fee money from commercial ventures.

The central point, however, is that the official documents are now in line with what ought to be the social and economic reality: that in Europe there should be a dual system of broadcasting – public and private.

The arrival of new channels and more choice have been of considerable benefit to viewers. Public service broadcasters have often been stuffy, arrogant, bureaucratic, unacceptably set in their ways and out of touch with their audiences. They have clearly benefited from competition so far.

But in the digital age, with potentially hundreds of channels, what level of competition is beneficial? Where should its limits lie and once the genie is out of the digital bottle, is there anything anyone can do about it?

It is easy to paint the ideal scenario. Maximum additional choice should be available to those who elect to pay for it on top of a bedrock public service available to the entire country.

The scenario only works if public service broadcasting does not become an impoverished ghetto, the equivalent of a living museum. Some important diagnostic hints and potential remedies were provided by the economists Andrew Graham and Gavyn Davies at a splendid reception last week in London's Institute of Contemporary Arts.

Their paper, *Broadcasting, Society and Policy in the Multimedia Age*, was funded by the BBC. The corporation was clearly so pleased with the independent conclusions that there was no shortage of wine and canapes – or of the BBC's very top brass.

A number of the main conclusions are of vital importance. One is that, contrary to conventional wisdom, the multiple channels of the digital age will tend to enhance monopoly rather than shatter it. This is because high quality multimedia products are expensive to produce, and the big players can leverage that cost through many different outlets around the world.

Perhaps even more important, the channels may breed like rabbits but scarce talent does not. And the battle for such things as exclusive sports rights is a game for big wallets.

The second fundamental point is that in such a world the public service broadcaster with a licence fee linked to retail prices will inevitably lose out over time and needs an enhanced funding mechanism.

Graham and Davies believe that the creation of common knowledge and shared assumptions are essential to the operation of society and democracy, and that total reliance on the market is not the best way to reach that goal.

Graham likes to tell the story about children in a south London school who were asked the number for the emergency services. Most thought it was 911 – the American emergency number.

In fact the decline of the BBC without further financial help is probably not as inevitable as they think and their solution – a £45 a year supplement to the licence fee for those with digital equipment – could fall on two counts.

It will be politically difficult to push through and those risking hundreds of millions trying to establish digital television in the UK will not relish such a surcharge at the outset.

But Graham and Davies are right. Important issues are at stake and the attachment of a protocol to the Treaty of Rome should be only the beginning of a debate to tease out how public broadcasting can flourish alongside the expanding private sector in a multi-channel digital world.

Broadcasting, Society and Policy in the Multimedia Age. BBC Public Affairs, 0171 973 6361. Free.

ADVERTISING

Don't mention the wall

Russian consumers still have money to spend and are still keen on buying imported goods, but foreign companies need to handle their advertising and marketing sensitively, warns a study by the Economist Intelligence Unit.

The EIU report says Russian consumers are very particular in their likes and dislikes. "For a generation which has been raised as part of a political and scientific superpower, to be treated as a poor developing nation touches on a very raw nerve," it notes.

It says Russians can easily be offended by advertising based on a foreign, especially American, culture. The EIU says two US companies, Mars and Wrigley, have already learned this lesson the hard way.

Russians continue to shy away from domestically-produced goods because of doubts over manufacturing quality, even those produced in Russia for foreign companies under strict supervision. Instead, local consumers place their trust in imports from countries with a reputation for quality.

The report also notes that small brands can compete effectively against big established rivals if they employ innovative marketing strategies. For example, the EIU says Stimirol, the Danish chewing gum, has outpaced the much bigger Wrigley in Russia thanks to clever advertising.

The EIU reveals that while nominal gross domestic product has contracted by 40 per cent and real incomes have declined since the collapse of the Soviet Union, an embryonic middle class has begun to emerge.

In 1995 10 per cent of families earned more than $250 a head a month, and between 1992-1995 Russians bought 3m new cars. Also, 20 per cent of families now owns a video-cassette recorder.

However, the report finds that less than a quarter of all families have disposable income. The rest struggle to provide the necessities.

Patrick Harverson

Consumer Marketing in Russia, Economist Intelligence Unit (£395/$625).

Tim Jackson · On the Web

Never confuse your robot

So you've got the company's website up and running. Now you face the difficult question of how to get people to come to it.

Most website owners simply assume that their domain name, such as *www.sun.com*, will bring in customers. But as more names are registered, each website has to compete with confusingly similar competitors.

Advertising, often seen as a panacea, can be an expensive mistake. A recent column looked at the pitfalls of indiscriminate banner advertising on the internet.

The most important way of bringing people to a web site is also usually the most overlooked: the search engines, including Lycos, Altavista, WebCrawler, Excite, and HotBot.

Many users start their research by typing in a string of words and following the list of most relevant links. Yahoo!, the most popular, delivered more than 1bn page views in April and serves about 10 per cent of the world's internet population.

With listings far larger than the biggest library catalogues, the search engines are wonders of the modern world. They send out software "spiders" and "robots" to roam the web, returning with information on sites.

But these spiders and robots aren't human. They follow rigid rules, and these rules have a dramatic effect on how each website is indexed.

If a website is designed without giving any thought to how search engines work, a web user who types in a word or phrase that captures the site's subject perfectly is unlikely to see it. Among the thousands of pages returned by the search, it will be buried too far down the list for any but the most persistent customer to see.

Generally, what matters is to become one of the top ten "hits" returned by the search. In recent weeks, I've received half-a-dozen pieces of junk mail offering to explain, for sums ranging from $20 to $100, the secrets of how to get your site into the top ten.

So as a public service, I've spoken to some technical people at the search services and come up with free advice.

Step one, say the search people, is to keep your web pages pithy and relevant, so as to avoid confusing the robots. The same goes for the title of each web page – the phrase that appears at the top of the browser when it arrives on the client's screen.

Step two: use meta-tags. These are nuggets of hypertext markup language (html), designed specifically for search engines, which give a description of the page or a list of keywords under which it should be indexed. Forgetting to include these tags is probably the most common webmaster's mistake.

Another mistake is to forget that robots and spiders cannot decipher words in fancy graphical fonts.

In choosing meta-tags, it's helpful to be comprehensive. An agency that rents houses might include these keywords: realtor, house, flat, rental, new home, apartment, estate agent, moving huose. (The last word is deliberately misspelled to try to attract the attention of internet users who make a typing mistake during their search.)

Some webmasters, known in the trade as "spandexers" because they are trying to span the indexes, also use black arts. They repeat the same keyword, or they include material at the bottom of the page in tiny white letters on a white background. After achieving a high ranking, some design multiple identical pages to squeeze out the competition from the top ten.

The search engines are getting wiser. Like taxmen on the trail of accountants, they keep tabs on what the spandexers are up to.

But there are still techniques open to the honest webmaster. One is to run the kind of search that your customers might carry out, and check the source code of the sites that come up tops.

Another is to change the titles of pages and continually resubmit them. A third is to use the spandexers' own weapons against them. Since the search engines only started penalising manipulation late last year you can "resubmit" someone else's website to the search engine. That will prompt the spiders and robots to take a second look – and to de-list a site if they find evidence of wrongdoing.

I found three sites particularly useful on this topic. One is *deadlock.com/promote*, which contains good advice from Jim Rhodes, who explains how he got his London hotel to the top of the rankings, and in the process brought in dozens of new e-mail bookings each day.

Another is *searchengine-watch.com*, which contains detailed technical background and suggestions.

A third is *rankthis.com* – a free service which allows you to type in a search term and the address of your own website, and find out how highly you ranked.

Unfortunately, not everyone can be in the top ten. All advice, no matter how good, suffers from the same problem: once everyone else follows it, you're back to square one.

tim.jackson@pobox.com

BUSINESS TRAVEL

Travel News · Roger Bray

Video cost saver

Business travel agency chain Hogg Robinson has begun offering customers access to video-conferencing.

The move is not so contradictory as it sounds. As agents earn less from commission – on airline ticket sales, for example – they can often earn fatter travel management fees by saving companies more money. Managing director David Radcliffe believes UK-based Hogg "must have the confidence to tell clients when not to travel if their business solutions can be provided in other ways".

The company struck a deal with Regus, which organises video-conferencing at centres around the world. It claims clients will pay 10 per cent less than if they made independent arrangements.

Passage to India

The alliance between KLM and US carrier Northwest Airlines is about to lead to more frequent flights between Amsterdam and two Indian cities, Delhi and Bombay.

At present, the Dutch airline serves the former four times a week and the latter three times. From October, Northwest will fill in the gaps to each city, creating a daily service meshing with both carriers' North Atlantic operations. With flights departing for India at 10.45am, most passengers from North America should be able to make same-day connections.

Danish launch

Danish airline Maersk is due to launch direct daily flights between its base at Billund in west Denmark and the Norwegian port of Bergen today.

It is operating the route as an extension of its Paris services, using Boeing 737s with business and economy class cabins. Flights leave Billund at 12.30pm, returning from Bergen at 3.10pm.

Capital budget

As room prices in London soar, Whitbread has opened its first budget hotel in the capital.

The Travel Inn at Putney Bridge is charging £49.50 a night. A recent American Express survey found that the average corporate rate at tourist class hotels in London was £94. The hotel is close to underground rail links with the West End and the City and, though you need to change trains at Earl's Court, with Heathrow Airport. Unlike other Travel Inns, it has telephones in rooms.

Moscow five-star

Moscow is to get a new five star hotel. The 392-room Marriott Grand is scheduled to open later this summer on Tverskaya Street – about 1km from the Kremlin – where many shops and restaurants have opened recently.

It will have a business centre and conference hall, with room for 350 delegates, which can be divided into five sections.

In-flight organic

Health-conscious passengers have persuaded Swissair to use organically produced food when preparing in-flight meals.

With typical Swiss precision it says that, in phase one of the project, 68 per cent of warm meals and breakfasts will be organic. Group chief executive officer Philippe Bruggisser says the airline aims to make that 90 per cent by 2000.

It plans to extend the policy to beers, wines and even baby food, and says it will buy coffee only from producers who pay growers fair prices.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	28	26	28	30	27
Hong Kong	31	32	33	32	31
London	19	20	20	20	18
Frankfurt	17	19	21	22	23
New York	33	33	36	34	29
L. Angeles	24	23	25	28	27
Milan	22	23	23	24	24
Paris	19	20	21	21	23
Zurich	17	17	17	19	19

Information supplied by Meteo Consult of the Netherlands

The better lunchbox

Victoria Griffith on how hotels are helping travelling executives avoid dismal airline food

As frequent travellers know too well, some airlines' cutbacks on meal service has made for some pretty dismal in-flight fare. Passengers on domestic flights or in economy class are all too likely to encounter rubber chickens, stale sandwiches and miniscule bags of peanuts.

Apparently, hotel executives have also taken note, and are attempting to fill a niche – and empty stomachs – by offering boxed meals to guests.

"The meals are mainly aimed at people making a mad dash for the airport," says Jeanne Datz of the Hilton hotel chain, which has launched boxed meal programmes at a number of locations, including Los Angeles, San Francisco and Chicago. "Otherwise, you might be facing another gooey pastry when you get on the flight."

A growing number of hotels are offering takeaway menus. This month Marriott International is offering its boxed meal programme out to 147 locations. The Four Seasons group says its takeaway menu has proved so successful in Los Angeles and Bali that it will soon offer the service chain-wide. The Westin is running a similar programme in Boston, Dallas and Chicago.

While most big hotels will prepare takeaway food upon request, the boxed programmes are different because they offer a large selection of cold menu dishes. There is also a greater emphasis on preparation.

Hotels say closer connections between flights mean that travellers may not get a chance to grab something at the airports. In any case, airports themselves have been moving away from white-table cloth restaurants toward fast-food venues such as McDonald's and Pizza Hut, which do not appeal to all palates.

Items on the boxed lunch menus offer more sophisticated fare. The Four Seasons "In-Flight Menu" includes dishes such as "spicy tuna rolls with avocado and pickled ginger" and "grilled lobster panini".

The meals are not cheap: entrees usually run to about $20 (£12.40); with dessert and drinks, the bill can easily reach $35.

For business travellers unable to face another rubber chicken, though, the price may be worth it.

Heathrow puts a lid on noise

A legally binding clampdown on noise levels is being proposed for Heathrow airport, BAA, the privatised airports operator, has announced.

The "noise cap" aims to reassure people living nearby that the sound of aircraft landing and taking off will not rise, even if a planned fifth terminal gets the go-ahead.

The authority said evidence points to further reductions in aircraft noise. For example, the Boeing 777, which uses new engine technology to cut the sound, produces significantly less noise compared to the older 747-100, while carrying similar passenger numbers.

BAA group technical director Michael Maine, chief policy witness at the fifth terminal public inquiry, said: "Noise is a serious issue at Heathrow and we are committed tackling it head-on. It has been shown over the years that noise levels can be reduced despite an increase in the number of passenger using the airport."

"Terminal 5 will only see an 8 per cent increase in flights, as the number of passengers per aircraft continues to rise.

"We are confident that even with this increase in flights we will keep within the proposed air noise cap because many of these flights will be new aircraft with quieter engine technology and the older, noisier aircraft will no longer be able to use Heathrow after 2002. We are so confident that we are prepared to accept a legal limit."

Amon Cohen explains BOC's travel buying rethink

How to ease the burden

Today, more than ever, companies need to rethink their travel purchasing strategies if they are to contain their third largest controllable expense.

Business class fares from the UK to North America have risen 20 per cent since 1995, according to American Express. Hotel and car hire rates have increased by double-digit percentages over the same period.

One multinational which has taken travel extremely seriously is BOC, the industrial gases group. Travel was one of the first areas the group tackled when in 1994 it began to overhaul its purchasing strategy.

BOC has an annual purchasing bill of $2bn and decided the way to contain it was to work with key suppliers on a global scale.

That ambition is being realised in travel. Since last year, BOC has reduced the number of travel agents it uses from more than 100 across 60 countries to one – Rosenbluth International.

Consolidating with just one agency is the first step in global travel purchasing. It provides a single, more accurate source for the data necessary to reach worldwide deals with travel suppliers.

Now that BOC understands better where its employees have been travelling and with whom, it has signed a global car hire deal with Hertz and will shortly conclude similar negotiations with half a dozen or so hotel chains.

Most importantly, BOC has wrapped up a series of global airline arrangements, which are still rare. Airlines have preferred in the past to make individual deals in each country, partly because clients have been unable to produce coherent multinational data.

They have also doubted the ability of corporate clients to ensure employees use preferred carriers – try, for instance, telling a French business traveller not to fly Air France.

And the airlines have been slow to adapt their sales structures for global negotiations. That is changing rapidly with the formation of international airline alliances, which provide the breadth of route networks that make a global deal attractive to the client.

BOC has signed two large deals: one with British Airways and its partners, including Qantas; the other with what is now called the Star Alliance, including United Airlines, Lufthansa and SAS.

BOC negotiated with only one carrier from each alliance – BA and United – and left these two to negotiate in turn with their partners.

At the same time, BOC agreed smaller deals with Cathay Pacific and two South African carriers – South African Airways and Comair – to account for routes not covered by the two alliances.

These five contracts will account for around 80 per cent of the company's annual air travel budget of $75m-$90m.

BOC travel manager Pam Koles says a strong track record helped clinch the agreements. "We have developed a very strong credibility and they know that when we make a guarantee, we will deliver on it. Some of the airlines have had their fingers burnt by companies promising and not delivering," she says.

Not only did Rosenbluth provide the data to help keep that promise, but the successful implementation of its own worldwide agreement with BOC was a further factor.

"Our relationship with Rosenbluth is there to prove we have genuine global intentions," says BOC supply management group manager Craig Lardner.

Rosenbluth has been impressed with BOC's approach to purchasing. Last year, it gave its client an award for constructing the best tendering process of 1996.

The award was partly in recognition of BOC's assessment model, devised by the group's supply management department. The model aims to improve selection procedures by weighting the importance of different purchasing requirements and measuring suppliers' responses in a rigorous manner.

Koles expects to save a minimum of 10 per cent of BOC's travel budget by implementing global programmes. However, Lardner says there are many additional benefits to the company's new purchasing supply strategy which cannot be measured in direct cash savings.

ARTS

OPENINGS

SANTA FE
Santa Fe Opera opens its 1997 season on Friday with a new production of *La traviata* starring Patricia Racette. The season runs until August 23, with a repertory including Handel's *Semele*, Strauss's *Arabella* and the premiere of a new opera by Peter Lieberson.

OTTAWA
The National Gallery of Canada has organised an exhibition of 65 Renoir portraits (right), taken from all periods of his career and featuring some of his best-loved paintings. It opens on Friday, and will later travel to the Art Institute of Chicago and the Kimbell Art Museum in Texas.

WASHINGTON
After its recent showing in Paris, a landmark exhibition of ancient

Khmer art arrives at the National Gallery of Art on Sunday, before going on to Tokyo and Osaka in the autumn. The 100 sculptures on show, dating from the sixth to the 16th centuries, represent one of the great traditions in world art, hitherto little known due to Cambodia's turbulent politics.

ZURICH
Is there room for yet another festival? Alexander Pereira, Zurich Opera House director, evidently thinks so. His inaugural programme begins on Saturday at the Schauspielhaus with Luc Bondy's [illegible] staging of Strindberg's *Playing with fire*. Other highlights include a new production of *La traviata* starring Eva Mei and a Brahms cycle conducted by Nikolaus Harnoncourt.

LONDON
The Royal Opera's 1997 Verdi festival reaches its climax this week with original versions of *Macbeth* and *Simon Boccanegra*. As a result of technical hitches, *Macbeth* on Friday will be confined to a concert performance, conducted by Edward Downes. The following evening, Mark Elder conducts Ian Judge's production of the little-known 1857 version of *Simon Boccanegra*, with a cast led by Sergei Leiferkus, Placido Domingo and Kallen Esperian.

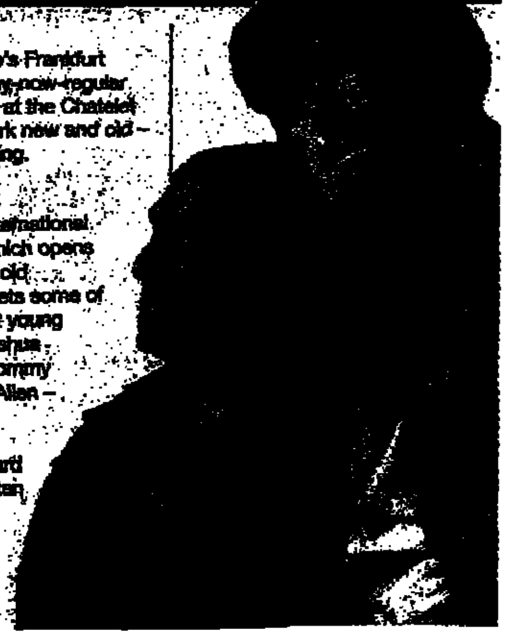
In 1955 Peter Hall directed the English language premiere of Samuel Beckett's *Waiting for Godot* at London's Arts Theatre. 42 years on he returns to the play, in a new production which is presented by the Peter Hall Company at the Old Vic. The roles of Estragon and Vladimir are played by Ben Kingsley and Alan Howard (far right). The first night is Friday.

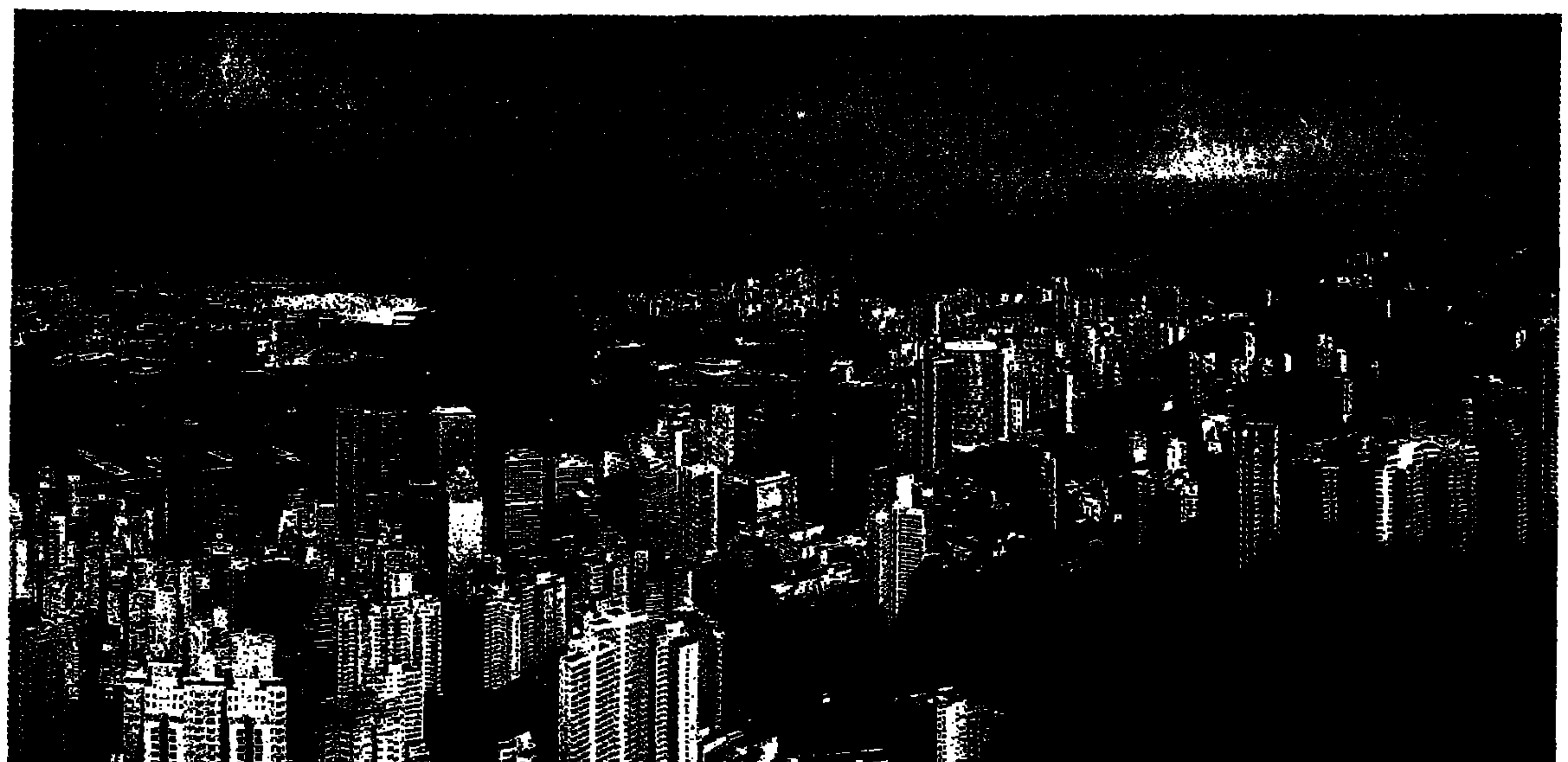
LAUSANNE
The Fondation de l'Hermitage is turning the spotlight on Charles Camoin (1879-1965), an early Fauve painter who passed into obscurity in later life. This retrospective, opening on Friday, aims to specify Camoin's contribution to Fauvism and rediscover little-known works from the 1920s and 1930s.

MARSEILLE
There are festivities to mark the 25th anniversary of the founding of Roland Petit's splendid Ballet National de Marseille, with a varied bill of performances.

PARIS
William Forsythe's Frankfurt Ballet opens a by-now-regular summer season at the Chatelet Theatre with work new and old – always challenging.

GLASGOW
The Glasgow International Jazz Festival, which opens on Friday in the old merchant city, sets some of the music's best young modernists – Joshua Redman (left), Tommy Smith and Geri Allen – among veteran beboppers Nat Adderley, Maynard Ferguson and Stan Tracey. Django Bates' big band should provide an eccentric conclusion.





Hong Kong Panorama: this acrylic painting by Ben Johnson was commissioned by Cable & Wireless and its subsidiary Hongkong Telecom to commemorate the handover on July 1. More than 3,000 buildings visible from Hong Kong's highest point, The Peak, are recorded in minute detail in the painting.

Hong Kong's artists look east

Andrew Clark discusses the cultural implications of the handover to China

A large sculpture of painfully twisted human bodies was erected in Hong Kong's Victoria Park earlier this month. Entitled *Pillar of Shame*, it occupied a prominent position during the Tiananmen vigil, and was the subject of heated discussion in the Urban Council. It then got caught up in a confrontation between students and police, when university authorities tried to stop it entering the campus. What started out as a work of art ended up as a symbol of free speech.

The *Pillar of Shame* episode could have been lightly dismissed, had it not taken place in the run-up to the handover of Hong Kong a week tonight. It sharpened the debate about the political dimension of culture under Chinese rule. After June 30, will artists be allowed to express what they please in their work? And will Hong Kong's cultural landscape continue to develop on existing lines?

Until the mid-1970s, Hong Kong was a cultural desert. Even today, its super-rich interpret culture in terms of restaurants, clubs and lifestyle, rather than as a medium for ideas and values. But thanks to the colony's economic boom, a fully-fledged visual and performing arts scene has begun to take shape. Institutions like the Hong Kong Philharmonic Orchestra, the Fringe Festival and the Chung Ying Theatre have a year-round function. They may mean little to the majority of the colony's 6m population, who are either too poor to enjoy them or too busy making money; but they are seen as a worthy veneer for a cosmopolitan city.

While established companies stick to a non-controversial path, experimental groups have demonstrated that art can be provocative. Zuni Icosahedron, which specialises in political satire, has openly made fun of Chinese leaders. The government-subsidised Edward Lam Dance Company includes nudity and homosexuality in its productions. Will such groups continue to operate freely after June 30?

Under the Basic Law, the post-colonial constitution negotiated by the UK and Chinese governments, China has promised to respect Hong Kong's way of life for the next 50 years. Freedom of expression is guaranteed, *as long as it does not subvert the government*. "Unless that clause is clearly defined, it can be used as a catch-all to limit artistic freedom," says Benny Chia, director of the Fringe. "You can do anything as long as you don't open that box. Some artists see it as a challenge. They're going to want to see how far they can go before having their knuckles rapped."

The structure of arts funding in Hong Kong gives the government enormous patronage and control. In the 1996-7 financial year it spent HK$1,609.31m (£129m) on the arts – more per capita than anywhere in the world except Germany. Most of the money is dispensed through direct grants, a system that raises the spectre of censorship under Chinese rule. Through the urban and regional councils, the government controls all the main theatres and concert halls. After June 30, decision-making will be in the hands of people who owe their allegiance to Beijing, who have made it their business not to rock the boat.

Inevitably, those with a stake in the arts are speculating whether Hong Kong's cultural infrastructure will be respected. China's handover celebrations offer some reassurance. The new administration has commissioned a symphony from Tan Dun and organised a concert by Chinese musicians working in western orchestras. "That says something about their commitment to western classical tradition", says Richard Pontzious, founder-director of the Asian Youth Orchestra and a former professor at the Shanghai conservatoire. "The idea that there is a great barrier between oriental and western music is false. Western music is as much part of Asian culture as noodles."

For evidence, you need only look at the number of symphony orchestras in Chinese cities and the popularity of western opera. On that basis, it would seem that institutions like the Hong Kong Academy for Performing Arts – where western and Chinese traditions are given parallel emphasis – have an untroubled horizon. The companies with most to fear are those which have not localised their outlook or personnel.

The Hong Kong Philharmonic is a prime example. Its senior management is British, and half its musicians are foreign. Its conductor, David Atherton, is seen as remote. Although playing standards have risen considerably since it went full-time in 1975, the orchestra's concerts are poorly attended. By contrast the 15-year old Hong Kong Chinese Orchestra – an ethnic-instrument ensemble which has developed, like its counterparts in mainland China, under the influence of western symphonic tradition – has a strong following.

"The Hong Kong public doesn't feel proud of the Philharmonic in the way it does about the Hong Kong Chinese Orchestra, because the Philharmonic doesn't sell itself properly," says Henry Shek, a US-trained Chinese conductor. "The danger is that, after a few years, you might get an official from Beijing questioning why we need to spend so much money feeding foreign musicians and a conductor who brings in all his friends. Why not make do with foreign orchestras? This is the kind of thing being discussed."

Hong Kong has indeed proved a lucrative market for touring ensembles, especially during the Hong Kong Arts Festival. Orchestras from Europe and North America are a big draw, and in the absence of a resident English-language theatre company, visitors like the Royal Shakespeare Company make a huge impact.

Even if, as seems likely, the British cultural presence suffers a sharp drop after the handover. western ensembles will continue to find a welcome in Hong Kong. In the long term, however, most members of the Hong Kong arts community foresee greater emphasis on contacts with mainland China. There is scope for two-way traffic. Hong Kong is in the process of rediscovering traditional Chinese art, and has yet to embrace leading Chinese companies like the Beijing-based National Orchestra of China. It would make equal sense for the Hong Kong Philharmonic to repeat programmes in Guangzhou (formerly Canton), Shenzhen and Foshan, the newly-rich cities across the border in Guangdong province. If Shanghai can fund its latest *Carmen* production entirely through commercial sponsorship, why can't Hong Kong arts companies profit from the booming business world of China's special economic zone?

"At present, most Chinese associate Hong Kong culture with Canto-pop [a hybrid of western and Chinese pop music] and gourmet food," says Tseng Sun-man, head of Radio Television Hong Kong's classical music channel. "Whenever we have an exchange, they're amazed how lively and well-supported the scene is here. We need to catch up with each other."

In financial terms, the Chinese have the most catching-up to do. Members of the hard-worked Guangzhou Symphony Orchestra are paid the equivalent of HK$70 a week – one per cent of what their counterparts in the Hong Kong Philharmonic earn for just 20 hours' work. In terms of outlook, however, the balance tips the other way. The Chinese have developed a huge appetite for western culture: for them, "western" means "modern". People in Hong Kong, by contrast, are reluctant to open up to China, because they are nervous about Beijing's intentions.

That attitude has inhibited Hong Kong artists and collaboration with Chinese companies is rare. One of the few to take the plunge is Willy Tsao, director of the Hong Kong contemporary dance group CCDC. Invited in 1987 to work with the Guangdong Modern Dance Company, he subsequently became its director – on condition that he agreed to avoid stage nudity and any reference to the Tiananmen protests.

Tsao argues that by working in China, Hong Kong artists can help break barriers and contribute to the spread of liberal values. "From July 1, there will be a lot of possibilities to influence the situation – but it depends on how willing Hong Kong artists are to communicate with China. If we adopt a defensive attitude, thinking the Chinese are coming to destroy our way of life, there's not much chance. But if we are open-minded, reason with them, explain our valued system of expression, then I believe China will change faster than we expect."

Theatre

It's all in the genes

The issue of eugenics can reverse the expected stances of campaigners: right-to-choose liberals can argue fervently against abortion simply because a child might possess a particular characteristic, whilst moralists may put on hold the notion that termination is murder if it means the eradication of a "moral disease" – such as homosexuality.

Jonathan Tolins' *The Twilight of the Golds*, receiving its British premiere four years after its US debut, is based on such a situation. Although written before the brouhaha about the identification of a so-called male "gay gene", it posits a process whereby such a gene can be identified early in pregnancy, thus offering the option to terminate. This is the dilemma faced by Suzanne Gold-Stein, and one passionately argued upon by her gay brother, David Gold.

In fact, not once is Suzanne's child-to-be described as "gay"; it would, we are told, be "like David". David's crusade as he "fights for his life" also mobilises his mother and father, who take refuge in the family variant of the Fifth Amendment – "you're our son and we love you" – until badgered into giving a straight answer. Yet Suzanne's real middle-class New York-Jewish reservation, that her son would face hostility and victimisation, is never explicitely stated; instead, the supposed brother-sister bond allows David to intuit her fears, and try to refute them by telling her tales from the *Ring* cycle.

As the title suggests, this play is heavy on Wagner. David buys Suzanne the cycle on CD and uses its plot to supply parables for life crises. Tolins writes with intelligence and sensitivity but with an unshakeable identification with David's standpoint and an avoidance of its inconsistencies. Polly James' direction fails to imbue the often protracted family exchanges with any kind of spark. Jason Gould as David gesticulates compulsively with his head, Gina Bellman never really gets to grips with Suzanne, and Peter Laird, as the father Walter, equates character with decibels. Suzanne's husband, Rob, is sidelined just as Mark Hatfield gets into his stride. On paper, Tolins' play has all the makings of a first rate drama; in practice, though, it remains frustratingly staid and evasive.

Ian Shuttleworth

Art Theatre, London WC2, until August 2 (0171-836-2132).

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

EXHIBITION
Rijksmuseum
Tel: 31-20-6732121
● The Nude – Prints, drawings and photographs: nude figures have long appeared in scenes from the Bible and mythology. In this exhibition artists spanning five centuries give their individual interpretations of these figures: Adam and Eve, gods such as Mars and Venus, and many other heroes and saints; to Aug 3

■ BARCELONA

EXHIBITION
Fundació Joan Miró
Tel: 34-3-3291908
● Lux/Lumen: display examining the way in which artificial and natural light can alter the subjectivity of the viewer when entering a lit space. The four artists involved – Bruce Nauman, Dan Flavin, Félix González-Torres and James Turrell – have all created works revealing light's ability to transform a space; to Sep 7

■ BERLIN

EXHIBITION
Museum für Völkerkunde
Tel: 49-30-8301226
● Der Schätze der San Diego: display of objects recovered in 1991 from the Spanish ship wreck San Diego, which sank in 1600 on the Philippines coastline. The exhibition features 800 objects including a number of ceramics from the Ming dynasty, navigational instruments, jewellery and weapons; to Nov 2

■ DUBLIN

CONCERT
National Concert Hall
Tel: 353-1-6711888
● National Symphony Orchestra of Ireland: with conductor Fergus O'Carroll and violinist Nicky Sweeney in works by Tchaikovsky; Jun 24

■ HANOVER

EXHIBITION
Sprengel Museum
Tel: 49-511-168 3875
● Felix Gonzalez-Torres: exhibition of 35 pieces by the New York Minimalist, dealing with themes of love and death; to Aug 24

■ LONDON

AUCTION
The Savoy Tel: 44-171 930 3647
● ICA 50th Anniversary Auction: contemporary art auction marking the 50th anniversary of the Institute of Contemporary Arts, featuring donated works by over 70 artists, including Helen Chadwick, David Bowie, Bridget Riley, Rachel Whiteread, Antony Gormley, Christo and Jiri Kolar; Jun 23

EXHIBITION
National Portrait Gallery
Tel: 44-171-3060055
● Clifford Coffin: The Varnished Truth: exhibition of work by the Vogue photographer, credited with the discovery of Audrey Hepburn. Coffin photographed many of his subjects at the outset of their careers and the display includes such renowned figures as Truman Capote, Arthur Miller, Gloria Swanson, Ernest Hemingway and Tennessee Williams; to Sep 28

Tate Gallery Tel: 44-171-8878000
● Francis Towne: the first comprehensive survey of the work of the British artist since his death in 1816, bringing together over 80 oils, watercolours and drawings. Towne is now regarded as one of the most original landscape painters of the late 18th century, known chiefly for watercolours produced during his journeys to Italy and Switzerland; from Jun 24 to Sep 14

■ LOS ANGELES

EXHIBITION
Huntington Library, Art Collection and Botanical Gardens Tel: 1-818-405-2100
● Mark Catesby: Drawings from the Royal Collection, Windsor: exhibition of work by the 18th century English naturalist who produced the first major illustrated publication on the flora and fauna of the British colonies in North America; to Jul 20

■ MADRID

EXHIBITION
Ex-MEAC – Museo Español de Arte Contemporaneo
Tel: 34-1-5492453
● Javier Vallhonrat: display of 60 photographic works by the Spanish artist, featuring three series developed during the 1990s; to Jul 13

■ MANCHESTER

CONCERT
The Bridgewater Hall
Tel: 44-161-9500000
● Bryn Terfel: performance by the baritone, accompanied by the pianist Malcolm Martineau. The programme includes works by Schubert, Ibert and Vaughan Williams; Jun 24

■ NEW YORK

CONCERT
Merkin Hall Tel: 1-212 362 8060
● Carlo Grante: the pianist performs works by Scarlatti, Schubert, Godowsky and Chopin; Jun 26

EXHIBITION
The Metropolitan Museum of Art Tel: 1-212-879-5500
● Indian Court Painting: 16th-19th Century – exhibition of paintings drawn primarily from the museum's own collection tracing the various traditions of Indian painting over four centuries. The display is one of three this year at the Metropolitan to mark the 50th anniversary of India's independence; to Jul 6

■ PARIS

AUCTION
Drouot Tel: 33-1-4800 2042
● Tableaux Prestigieux: highlights include works by Renoir, Bonnard, Vollard and Zarraga; Jun 25

EXHIBITION
Musée d'Orsay
Tel: 33-1-40494814
● Scenes from the Polish Ghetto, 1919-1920: display of 70 photographs taken by the Polish Constructivist painter Henryk Berlewi. The images show inhabitants of the Polish Ghetto; to Aug 31

■ SPOLETO

FESTIVAL
Spoleto Festival
Tel: 39-743-222611
● Festival dei Due Mondi: this year's highlights include performances by Luciano Pavarotti, Joaquin Cortés, the Dance Theatre of Harlem, Tap Dogs, Robert McDuffie and Valerio Adami. The opening concert is by Spoleto Festival Orchestra, with conductor Richard Hickox in works by Berlioz; from Jun 26 to Jul 14

■ STOCKHOLM

EXHIBITION
Kungliga Teatern – Royal Swedish Opera House
Tel: 46-8-7914300
● Opera Costumes: display of historic costumes used during the Royal Opera's 225 year repertoire; to Aug 2

■ VIENNA

EXHIBITION
Osterreichische Galerie im Belvedère Tel: 43-1-79557
● Unheimliche Heimat-Henry Koerner 1915-1991: display featuring 60 etchings, drawings and paintings by the American regionalist artist, who centered his work around the philosophies of the Neuen Sachlichkeit; from Jun 25 to Aug 31

■ WASHINGTON

EXHIBITION
The Phillips Collection
Tel: 1-202 387 2151
● Twentieth Century Still Life Paintings from the Phillips Collection: display of 75 works by 46 artists, chronicling the evolution of still life paintings this century throughout Europe and America. Featured artists include Pierre Bonnard, Rufino Tamayo, Man Ray, Walt Kuhn, Walter Sickert, Braque, Picasso, Stuart Davis and Ben Nicholson; to Aug 31

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Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

Philip Stephens

Pledges to be faced

Labour cannot dodge the contradictions between its promises on health and education and those on tax

The trouble with pledges is that they are redeemable. Tony Blair made quite a few before the general election. The most important five he had printed on a handy wallet-sized card distributed to millions of voters. As it happens, I have kept mine.

One of these sacred promises was to reduce class sizes for five to seven year-olds to 30 or below. Another was to cut waiting times in the National Health Service by treating an extra 100,000 patients. Specific sums were earmarked to avoid a collision with Mr Blair's separate vows on spending restraint and income taxes. Smaller classes would be paid for by phasing out the assisted places scheme and shorter waiting times by cutting back on bureaucrats.

The arithmetic never did add up. The contradictions inherent in the various pledges on tax and spending were merely obscured. But in the nation's enthusiasm to be rid of the Conservatives, that seemed a rather small point. Mr Blair had offered a token of his good intent: hospitals and schools would be better resourced. We took him at his word.

Now the prime minister has a decision to make. One or more of his various assurances must be dropped. He can confront the dilemma head on and, probably, earn some political credit. Or he can allow events to determine the timing and circumstances of an unavoidable retreat.

The reality Mr Blair cannot dodge is that without additional cash the promises on health and education will soon be demonstrably worthless. Both services need, say, an extra £1bn next year just to stand still. The shortfall swamps the tiny savings from the assisted places scheme and streamlining the NHS. Without this new funding, classes will be bigger not smaller and hospital waiting lists longer not shorter.

The politically shrewd move would be to provide the extra cash in next week's Budget. The nation would applaud. It never signed up to the Tory spending targets. And you do not need to be an opinion pollster to appreciate the deep public disquiet about filthy hospitals and crumbling schools.

The risk is that Mr Blair will be prevailed upon by the Treasury gloomsters to take a tough line. The government will be forced eventually to give way. By then, though, the voters may well have torn up in disgust New Labour's neat little pledge cards.

The Treasury is implacably hostile to any relaxation of the spending reins. It always suspects prime ministers of being soft on the public finances. Mr Blair's endorsement of the proposed millennium folly at Greenwich has not helped.

The word among Whitehall mandarins is that this early predilection for doing things bigger and better than anyone else is going to come expensive over the next few years. Ushering in the new millennium in a grotesque tent by the Thames will not leave much change from £1bn.

Gordon Brown, meantime, has already done his best to darken the outlook for the public finances. The chancellor's post-election audit is said to have discovered a £20bn "hole" in the projections for government borrowing. To prove it, the chancellor persuaded the National Audit Office to endorse a set of more pessimistic economic assumptions for his first Budget.

> The politically shrewd move would be to provide the extra cash for the two services in next week's Budget. The nation would applaud

The aim, I am told, was to persuade Mr Blair to break New Labour's promise not to increase the taxes paid by middle England. Failing that, the Treasury was determined to convince him the spending limits could not be breached.

Mr Brown, though, has painted a picture quite obviously bleaker than the reality. Careful reading of the NAO's report reveals nothing to show the previous government fiddled the figures. Instead, it has simply answered a rhetorical question: if you change the underlying assumptions in any forecast you end up with a different outcome. Inconveniently for the chancellor, the improved economic outlook has more than offset the theoretical borrowing overruns identified by the NAO.

Such exercises also bestow a spurious precision on the Treasury's predictions. Take one recent example. Last autumn Kenneth Clarke had a fairly serious row with the senior officials responsible for the borrowing forecast. They wanted an estimate of £29bn for 1996-97. The then chancellor said they were being too pessimistic about tax revenues. He overruled them and lopped £3bn off the forecast.

Had he known at the time, Mr Brown would have called this a blatant fiddle. In reality, Mr Clarke's instincts were more than right. The actual figure turned out to be some £3bn below the £26bn forecast. And the NAO's stamp of approval will do nothing to improve the opacity of the Treasury's crystal ball.

Mr Brown would have done better to have commissioned an independent audit of the spending limits to which he has signed up. It would have revealed, as Goldman Sachs and the Institute for Fiscal Studies have pointed out, that the projected squeeze is far harsher than any during 18 years of Conservative rule. Simply to match the average annual increase in spending between 1979 and 1997, the new government would need to add £24bn during the next five years.

The present budget for education shows it falling as a proportion of national income (another of Mr Blair's pledges was to increase the share). For the health service, there is an effective standstill for the next two years against an annual trend growth rate of more than 3 per cent. Overall, the inherited targets project a fall in the share of national income taken by the state from over 40 per cent to less than 38 per cent.

These figures are unsustainable. It is true that Mr Brown has already committed extra money to a welfare-to-work programme and to local authority housebuilding. And no one is suggesting Mr Blair repeat the mistakes of the past by embarking on a post-election spree. Some of the extra money for health and education will have to come from the Treasury's contingency reserve. And savings can be found in other Whitehall budgets.

But the central premise of Mr Blair's platform was that a dynamic market economy is not inimical to a decent society. In such circumstances, the nation will find it hard to understand if he puts preserving a £3bn tax subsidy for homeowners ahead of keeping his unequivocal promises on schools and hospitals.

·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

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Blair could learn from US tax credit scheme

From Professor Jeffrey B. Liebman.

Sir, Your editorial "Welfare reform" (June 10) ignored the earned income tax credit, the US programme most likely to be of use to the prime minister, Tony Blair, in his efforts "to bring the workless class back into the mainstream".

When President Clinton was preparing his first budget during the spring of 1993, the US economy faced two challenges that are similar to those that the UK faces today. While overall employment rates were high, there was considerable concern about low labour force participation rates for single mothers. In addition, after 20 years of rising income inequality, a policy was needed to help low and moderate-wage workers share in the broader prosperity.

A large expansion of the earned income tax credit (EITC) was Clinton's answer to both challenges. The EITC provides in-work benefits of up to $3,500 to taxpayers with children and incomes below $29,000. Payments are made through the tax system rather than through the welfare system, allowing low wage workers to escape the stigma of welfare.

Research indicates that the EITC has offset one-third of the 20-year trend of rising income inequality and has led 500,000 single mothers to enter the labour force. Meanwhile, unemployment rates in the US have dropped to levels that were unimaginable just a few years ago.

Differences in tax and welfare systems between the UK and the US require that an in-work benefit administered through the tax system must take a different form in the UK from that in the US. In particular, it is important that the many advantages of the family credit be retained in any reform. Nonetheless, if Mr Blair wishes to learn from the US experience with welfare reform, it is the 1993 expansion of the EITC, not the 1996 welfare bill, that holds the most promise.

Jeffrey B. Liebman,
assistant professor of public policy,
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79 John F Kennedy Street,
Cambridge,
Massachusetts 02138, US

No win past this post

From Mr Dave Huddart.

Sir, If first-past-the-post single ballot is good enough for the UK electorate, why is it not good enough for the Conservative party?

Dave Huddart,
13 Love Lane,
Oldswinford,
Stourbridge,
W Midlands, DY8 2DA, UK

Exclusion a recipe for digital TV failure

From Mr Dermot M.E. Nolan.

Sir, If BSkyB is excluded from equity participation in UK digital terrestrial television services ("Watchdog tells BSkyB to shed digital group stake", June 18), a damaging hardware and services war between digital satellite and digital terrestrial is almost inevitable. Mirroring the tragic European experience with rival and incompatible digital platforms consumers will ignore the market. UK plc will lose out in TV set and related industrial markets, and closure of analogue terrestrial television will be delayed by many years.

The Independent Television Commission's eventual decision is a choice between accepting regulated concentration of ownership to drive DTT forward, or likely market failure of DTT with the ensuing policy consequences for public service television, industrial markets and spectrum auctions.

Dermot M.E. Nolan,
director,
CDG,
1 The Mews,
Putney Common,
London SW15 1HL, UK

UK charities would be hit by abolition of ACT relief

From Mr Stuart Etherington.

Sir, The article by Jim Kelly about the effects on both businesses and charities of the rumoured plans by Gordon Brown, the chancellor of the exchequer, to abolish advance corporation tax relief in the next Budget ("Under fire for 'victimless' tax increase", June 16) highlights an issue of grave concern to charities and voluntary organisations.

In financial terms, the voluntary sector is already facing an uncertain future, with many of its main sources of income either static or in decline. The only income stream to have risen every quarter in each of the last five years is investment income, and the sector now derives a fifth of its overall income from this source.

The precise amount that charities would lose if ACT relief were abolished is estimated at between £135m and £250m a year (the higher figure being roughly equivalent to the amount coming into the sector from the National Lottery).

The effects would be felt by large and small charities alike. Larger charities with significant investments would be hard hit, and endowed charitable trusts, which are involved in awarding grants to small and medium-sized organisations, would have considerably less money to distribute to good causes.

One of the aims behind potential changes to ACT would presumably be to increase levels of investment by the business sector, but we hope that the chancellor, in formulating his Budget proposals, will not overlook the role of the voluntary sector in creating opportunities for social investment.

Stuart Etherington,
chief executive,
National Council for Voluntary Organisations,
Regent's Wharf,
8 All Saints Street,
London N1 9RL, UK

From Mr Josh Danziger.

Sir, Contrary to Lex ("UK tax", June 18), I had assumed that the Treasury contemplated stopping pension funds reclaiming ACT credits, without the total abolition of ACT, which would also stop taxpayers using the credit as an offset against tax.

Total abolition of ACT would presumably result in double taxation of dividends paid to taxpayers: once through corporation tax on company earnings, and then again through tax on the taxpayer's income. This would make equity funding much less efficient than debt funding, resulting eventually in increased gearings.

It's hard to see that this is the desired result.

Josh Danziger,
17 Meard Street,
London W1V 3HQ, UK

Management · Tony Jackson

Why being different pays

Corporate strategy should be about choosing trade-offs, says a Harvard professor

Michael Porter, who warns against strategic stalemate

If the theory of corporate strategy is a rising market, Michael Porter's stock has not quite kept pace. His reputation in the field, although immense, is based mainly on books published in the early 1980s. His best-known book, *The Competitive Advantage of Nations* (1990), is not primarily about corporations at all.

But as professor of business administration at Harvard Business School, Porter is hardly out of touch. Nor, at 50, is he resting on his laurels. Much of his work lately has been on corporate strategy; and as he sees it, the discipline has taken some serious wrong turnings in the past decade. First, he says, the idea has grown up in some quarters that strategy is the same as operational efficiency. Companies need only employ modern techniques, such as total quality management or time-based competition, and the future will take care of itself.

In reality, strategy and efficiency are fundamentally distinct. "Operational improvement is doing the same thing better," Porter says. Strategy, by contrast, involves choosing. "Choice arises from doing things differently from the rival. And strategy is about trade-offs, where you decide to do this and not that."

The essence of strategy, in fact, lies in deciding what not to do. "That is the manifestation that you have a strategy. It also collides with many messages that managers have been assimilating for some time: be close to your customer, and be customer-responsive. Strategy is the deliberate choice not to respond to some customers, or choosing which customer needs you are going to respond to."

At this point, Porter introduces the second part of his thesis. If strategy does not consist of operational improvement, neither does it consist of focusing on a few core competencies. Real sustainable advantage comes rather from the way a company's activities fit together.

"Any individual thing that a company does can usually be imitated. The whole notion that you should rest your success on a few core competencies is an idea that invites destructive competition. Successful companies don't compete that way. They fit together the things they do in a way which is very hard to replicate. You have to match everything, or you've basically matched nothing." An example he gives is the car rental business. "The companies your readers will be familiar with are Hertz and Avis, and National and Budget. Those will be seen as the 'successful' companies because they have strong brand images, and people see them at the airport when they're travelling around.

"It turns out that none of those companies has been very profitable, ever. They are all locked into an operational effectiveness competition, offering the same kind of cars at the same kind of airports with the same kind of technology."

Compare that with Enterprise, a family-run company. "They do very little consumer advertising, and have no on-airport locations. Their whole strategy is to provide cars for people whose car is stuck in the repair shop, or who have wrecked their car and are waiting for a replacement."

Enterprise has a lot of smaller locations and older cars. It hires more educated staff, who sell to car-service companies or insurance agents. "They've chosen not just to try harder, like Avis, but to do almost everything differently. They've made clear trade-offs," says Porter.

For most companies, Porter argues, this kind of thinking presents immense problems. "To put it simply, managers don't like to choose. There are tremendous organisational pressures towards imitation and matching what the competitor does. Over time, this slowly but surely undermines the uniqueness of the competitive position."

In part, he says, this comes from a curious notion which has grown up over the past decade: that there are no trade-offs any more. "People have come to think that you can achieve low cost and the highest quality, or high service and the lowest cost. They confuse moving to the frontier with where you are on the frontier."

This is because when a company has been badly managed, it is often possible to improve quality and cost simultaneously. "But once you get to good process designs, you have to make choices again. This notion that quality is free has caused many managers to believe not only that they don't have to make choices, but that they shouldn't."

All this leads many companies to destroy their own strategies. "They start out with a clear position, and over time they're drawn into a competitive convergence where they and their rivals are all basically doing the same thing. Those kind of competitions become stalemates."

Porter used to believe, he says, that the hard thing about strategy was understanding the external environment. "I've now become convinced an equally hard part is coping with the internal forces which work against making clear trade-offs and strategic choices.

"This has led me to a new interest in the role of leadership in strategy. Most often, it's to make the choices. Strategy can't be delegated. Nobody in the organisation will appreciate these trade-offs except the leader. Once a strategy has been established, most of what leaders do is essentially to say 'no': to screen the constant barrage of ideas and opportunities against the strategy, and see if they fit."

In some industries, he argues, the competitors are clones – companies so similar they cannot even conceive of a different way of competing. The task then is to decide whether the economics of the industry are such that there are no opportunities for trade-offs.

"That's usually the key question. What if I only did that; could I do it better? What if I chose this technology and not that, or this customer group and no others? If you can do terrifically well at X by giving up Y, that gives you the basis for a distinctive position.

"If there's basically only one dominant way of competing, then you're the hamster running around on the wheel. If you're in that kind of industry, you have to configure your organisation for that kind of world. You're just going to keep trying harder. I argue those industries are worth avoiding."

Some would argue that in an era of global competition, all industries will come to look like that. Porter disagrees.

"I don't think we're moving towards a hyper-competitive world in which there are no trade-offs. We're probably moving in the other direction. There are more customer segments than ever before, more technological options, more distribution channels. That ought to create lots of opportunities for unique positions."

COMMENT & ANALYSIS

FINANCIAL TIMES

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Monday June 23 1997

Taking Africa seriously

Better late than never. Fifteen years ago the World Bank and others warned that the African economy was in crisis. At last it is on the agenda of the Group of Seven, the US having led the way last week with its trade-based Africa initiative.

The more positive mood is welcome. Much has changed for the better over the past decade or so. Political and economic reforms are having an impact, southern Africa is at peace, new stock markets are opening up. Last year's 4.8 per cent GDP growth in African economies was the best in two decades, and should be matched this year.

But the hurdles to growth and stability remain formidable. President Bill Clinton's upbeat appraisal needs to be tempered by a frank assessment of the Africa's problems, and the very modest measures he is suggesting to combat them.

For all the encouraging signs, the African continent does not yet have a single example of a long-term recovery strategy gone right. The number of democracies may have quadrupled since 1990, but not one has passed the test of changing its government at the ballot box. On the economic front, there is a similar lack of role models. Ghana has not sustained its promise of the early 1990s. Uganda, whose economy grew by almost 10 per cent last year, is a contender, but remains heavily dependent on aid.

For all its potential wealth from minerals, agriculture and tourism, sub-Saharan Africa remains impoverished, with the number of poor people rising, both in absolute terms and as a share of the population. At the same time, the region's role in the world economy is shrinking. Its share of world trade has fallen from 3 per cent in the mid-1950s to 1 per cent in 1995, and it attracts a mere 3 per cent of the foreign direct investment to developing countries. Even in primary products, Africa has lost market share to competitors who have not enjoyed preferential trade access through Europe's Lomé Convention.

Mr Clinton is right to stress that the main responsibility for reversing these failures lies with Africans. But the outside world can help: by granting vastly improved market access and faster debt reduction to strong reformers, and by being more determined to ensure that aid money is well spent.

For their part, donors and development organisations have much to prove when it comes to channelling assistance to the right areas, such as research, health, education and infrastructure. And they need to be firmer than they have been in applying conditionality – punishing countries who do not make good on their reform promises, and being prepared to reduce the debt burden of those who have shown themselves committed to change.

Even with these measures, it will be a long haul. The World Bank has pointed out that even with 5 per cent annual growth, most African countries will not enter the middle income category for another half century.

Only when Africa's flight capital, both financial and intellectual, comes home, will we know that recovery is really in progress. The G7's shaft of light is welcome, but no one should underestimate how long – and how much – it will take to lift the gloom for good.

Creeping coup

Last week Turkey's secular politicians sighed with relief at the resignation of Mr Necmettin Erbakan, the country's first Islamist prime minister. Turkey's friends in the west are not so sure. They shared the alarm at the emergence of Mr Erbakan's Welfare party as Turkey's largest in the 1995 election, but many felt his coalition government was an experiment worth trying – preferable to a confrontation, as in Algeria, between Islamist election winners and a secular military regime.

It is worrying that the experiment has been allowed to fail. At least it did not end in a military coup, which would hideously embarrass Nato. But a change of government prompted by explicit army threats of a coup is the next worst thing.

Anyway, the crisis is not over. Mr Erbakan resigned on the understanding that the same coalition would remain in power until early elections, with Mrs Tansu Çiller becoming prime minister. President Süleyman Demirel has tried to pre-empt that by asking Mr Mesut Yilmaz, the opposition leader, to form a government. But it is far from certain he will succeed.

Even if he does, his government will also be a caretaker one, aiming at elections next spring – and new elections may well see an increase in the Islamist vote. Nor should anyone imagine that the solution lies in banning the Welfare party, as demanded by the public prosecutor. That would send a simple message to its supporters: the ballot box is not for you, try violence instead.

Those who see Mr Erbakan as a threat to Turkey's European and democratic future must be prepared to oppose him in a democratic way, which means letting the voters decide. Added together, the secular parties still have many more votes than he does. If they could unite around a credible programme to beat inflation, reform the state and end the dirty war in the south-east, they would not need the armed forces to help them defeat him.

Kick the weed

The mooted $368bn settlement between the US government and Big Tobacco raises three questions. Is it fair? Should Congress agree to it? And what might it mean for the rest of the world?

The issue of fairness might seem self-evident. The three parties – tobacco victims, US taxpayers and the companies themselves – are all represented by the best lawyers money can buy. The fact that a deal has been reached should guarantee its even-handedness.

There is a difficulty. The money is to be raised by a mandatory duty on cigarettes. The largest single chunk of the proceeds will go to individual states, to pay for tobacco-related illness. As a tax, this is plainly regressive, since smoking is most prevalent among the poor.

It could be argued that smokers have brought it on themselves. Why then are they entitled to compensation through the courts? Again, part of the money will be used to settle class actions. Why should tomorrow's smokers, rather than the tobacco companies and their shareholders, have to pay for yesterday's victims?

Supposing Congress can resolve that, a more basic question remains. The chief aim of public policy should be to end smoking: not through prohibition, but through a combination of pressure and persuasion. The chief instrument of pressure is litigation, and under the deal it would be largely renounced.

Before taking that step, Congress should ask itself how far the settlement would cut consumption. It should also ask itself why the share prices of the big tobacco companies have leapt – in Philip Morris's case, by some 20 per cent – since the deal was first rumoured two months ago.

Suppose all this, too, is resolved. What will it mean for other countries? In the UK, for instance, the medical establishment is already calling for similar compensation to the taxpayer for the cost of treating smokers.

In fact, the knock-on effects could be small. In Europe, health warnings and curbs on advertising are typically much tougher than in the US. Tobacco taxes are also very much higher, to the point where they cover most of the health costs anyway.

Above all, the US deal is chiefly driven by the peculiar character of US litigation. Shorn of that, the claims of taxpayers are exposed as illogical. It is one thing to sue companies for shortening people's lives. But to sue for the cost of their deaths implies those costs are ultimately avoidable: that is, that non-smokers are immortal.

In fact, smokers may die younger, but not necessarily more expensively. Add in the cost of pensions which many of them fail to collect, and from the taxpayer's viewpoint they may well be contributing their fair share already.

When the smoke clears

The tobacco industry may have got off lightly in its proposed landmark settlement with US states, says **Richard Tomkins**

The $368bn (£222bn) peace deal struck by US tobacco companies and anti-tobacco lawyers on Friday was described by one anti-tobacco negotiator as "the single most fundamental change in the history of tobacco control in any nation in the world". At the very least, it is a landmark in the history of US attempts to curb cigarette smoking.

But the hard part will be convincing a sceptical US public that the settlement represents anything much more than a sell-out to the tobacco industry and an enrichment scheme for the large numbers of lawyers who stand to collect a slice of the proceeds.

Battles over smoking and health have been waged in the US ever since the Surgeon General determined in 1964 that smoking was a health hazard. But the tobacco industry has a well-established record of coming out on top – as, for example, when it turned the introduction of health warnings on cigarette packs into a shield against tobacco litigation.

Meanwhile, although the proportion of US adults who smoke has fallen sharply from a peak of 42 per cent in the 1960s, the decline bottomed out at 25 per cent in 1990 and has stuck at that level since. As a result, cigarette smoking remains the leading preventable cause of death in the US, taking about 400,000 lives a year.

Bowing to the strength of the tobacco lobby, Congress has been reluctant to interfere with this state of affairs: US tobacco manufacturers remain among the least heavily taxed and most lightly regulated in any developed country. But the nation's trial lawyers have used increasingly inventive approaches to launch an avalanche of lawsuits against the industry.

So far, tobacco manufacturers have triumphed in most of the cases that have gone to trial: juries have usually taken the view that people knew the risks associated with smoking even before the warning labels started to appear on the packs.

But cigarette companies and their shareholders are haunted by the fear that, one day, these cases will start going against the industry, producing catastrophic losses.

Friday's deal, if ratified by Congress, will remove that fear by outlawing class action lawsuits – those brought on behalf of thousands, or even millions, of smokers making similar claims – and the lawsuits that have been brought by the attorneys-general of 40 states suing the industry for the billions of dollars they have spent on treating sick smokers.

In return, tobacco manufacturers will pay out $368bn over the next 25 years, agree to regulation by the Food and Drug Administration, and accept tough new restrictions on cigarette advertising and marketing, with particular emphasis on curbing under-age smoking.

It has not yet been decided how the money will be disbursed, but a large portion will be used to settle the state claims, another portion will be used to settle existing class action lawsuits – and a large, but as yet undefined, percentage will go to the hundreds of trial lawyers involved in these cases, who have spent time and money battling the industry.

At first glance, the deal looks tough on tobacco manufacturers. The pay-out averages $14.7bn a year, more than double the industry's operating profits of $7.2bn from domestic tobacco sales last year; and the new regulations and advertising restrictions are aimed at resuming the downward trend in cigarette smoking, with a view to its eventual elimination.

In a joint statement, the big tobacco companies described the settlement as "a bitter pill" requiring previously unimaginable concessions. Yet they could hardly have said otherwise: for the settlement requires the approval of the White House as well as legislation by Congress before it can come into effect.

In reality, however, the tobacco companies seem unlikely to suffer much. They plan to offset the cost of the deal by increasing cigarette prices in the US by about 50 cents a pack, so the settlement will have the same sort of effect as a big tax increase. In addition, the deal does nothing to impinge on the growth side of their business – their booming overseas sales, particularly in emerging markets. And immunity from big legal claims is a prize of almost incalculable value.

Further, the likely benefits to public health appear scant. Experience in other countries shows that even where very tough restrictions, or even outright bans, on advertising and marketing have been introduced, they have had little impact on smoking levels. Youngsters take up smoking because they perceive the habit as "cool", not because advertisements tell them to.

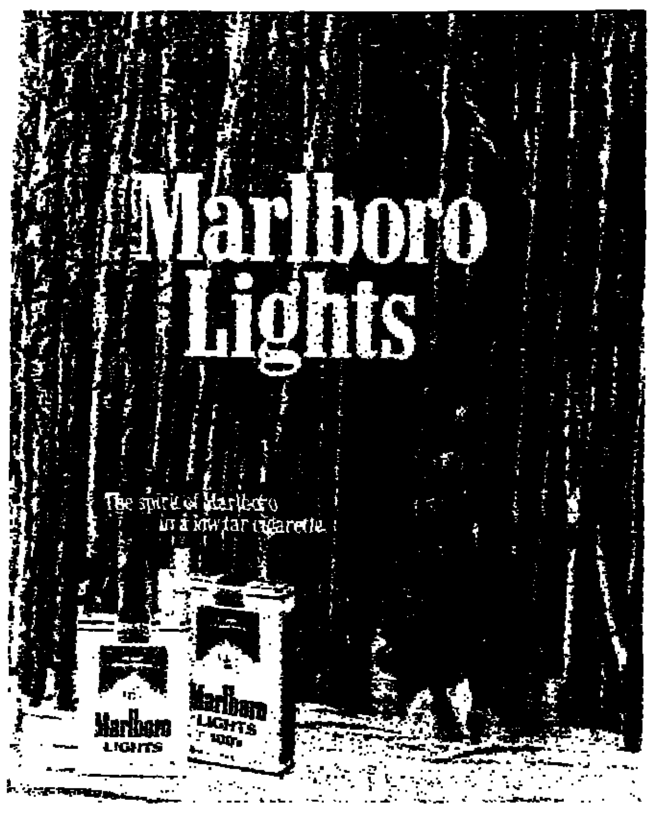
Regulation by the FDA may also have little impact. The agreement allows the agency to reduce, and even eliminate, the addictive nicotine component from cigarettes. However the small print says the agency will first have to present "substantial evidence" that the changes will result in a "significant reduction of the health risks" to smokers, that they are "technologically feasible" for manufacturers, and that they will not create a black market for contraband tobacco products with higher nicotine levels – an array of conditions that may be difficult to fulfil.

To counter such criticisms, the agreement provides for a financial penalty of up to $2bn a year against the tobacco industry if it fails to cut under-age smoking by 60 per cent over the next 10 years – seemingly, a form of guarantee that the deal will work. But the target looks so unrealistic as to suggest that tobacco manufacturers consider an extra $2bn a year a price worth paying for the legal immunity they will gain.

If there are any benefits to public health, they are most likely to flow from the 50 cents-a-pack price increase. This, more than any other aspect of the settlement, may affect people's propensity to smoke: other countries have found that big price increases reduce demand for cigarettes, particularly among youngsters. Mr Gary Black, an analyst with Sanford C. Bernstein, has estimated that the price increase could cut consumer purchases by 11 per cent.

But to many public health advocates, it is unclear why Congress should not simply legislate for a tax increase and tougher regulations, instead of striking a deal that largely relieves the tobacco industry of liability for what it has done in the past.

A pack of conditions: main points of the agreement



- Tobacco industry to pay out $368bn over 25 years, starting at $10bn next year and rising to $15bn. Proceeds will settle claims by states suing the industry for healthcare costs, existing class action lawsuits and future lawsuits by individual smokers.
- After 25 years, $15bn-a-year payments to continue in perpetuity, rising by 3 per cent a year or the inflation rate, whichever is higher. But if smoking declines, so will the payments.
- Future class action lawsuits and state lawsuits to be banned. Individuals may still sue, but maximum damages limited to $5bn a year, included in the $368bn figure.
- Punitive damages to be banned in return for payments totalling $60bn over 25 years, included in $368bn figure. Proceeds to pay for public health programmes, healthcare for uninsured children and other purposes.
- Advertising banned on all billboards, on the internet, at sports events and concerts, and in point-of-sale displays. Human and cartoon figures, including Marlboro Man and Joe Camel, banned from advertisments. Merchandise bearing cigarette logos banned. Vending machines banned.
- Cigarette packs to carry tougher warnings covering 25 per cent of the front of the pack instead of the side.
- Nicotine to be regulated as a drug by the Food and Drug Administration, which will have the power to reduce nicotine levels but will not be allowed to ban it before 2009.
- Industry to conduct $500m campaign to reduce under-age smoking. Target reductions: 30 per cent in five years, 50 per cent in seven years and 60 per cent in 10 years. Industry to pay $80m a year for each percentage point by which the targets are missed, up to $2bn a year.

Ban consigns Joe Camel to history's ashtray

Among the winners and losers in the $368bn (£222bn) tobacco settlement, two of the most prominent victims will be the Marlboro Man and Joe Camel, who will disappear in the US because of the ban on the use of human and cartoon figures in advertisements, Richard Tomkins and Martin Brice write.

The Joe Camel advertisements in particular had been singled out by the anti-tobacco lobby as a transparent pitch at young people.

The irreverent cartoon character – orginally devised to get around a French government ban on the use of human figures in cigarette advertisements in the early 1970s – epitomised "cool", usually being portrayed in a party setting with dark glasses, a tuxedo, and with a cigarette hanging from his pendulous lips.

In other respects, those involved in the negotiations – the attorneys-general of the 40 states suing the tobacco industry, the trial lawyers involved in class action lawsuits against the industry, and the industry itself – appear to have agreed a deal that, if ratified by Congress, will serve most of them reasonably well.

For the tobacco companies, the cost of the payout will be funded by increasing cigarette prices – effectively, introducing a tax surcharge – so the main effect will be the extent to which domestic demand is depressed by the price increase. Against this, the tobacco companies will save a large chunk of the estimated $600m a year they had been paying out in litigation costs.

In any event, US tobacco sales account for only a portion of the profits of the big tobacco companies – 30 per cent in Philip Morris's case. Wall Street analysts believe the net cost of the deal will be small compared to the benefits the tobacco companies will reap from the removal of the threat of catastrophic litigation losses. Ms Diana Temple of Salomon Brothers expects tobacco share prices to jump by 20 per cent or more if the deal is done.

In the UK, three tobacco companies are listed on the London Stock Exchange, Gallaher, Imperial Tobacco and BAT Industries, but only the latter is affected by the US settlement

Under the terms of the agreement, BAT, which made £1.63bn operating profits from tobacco last year, will pay about $1.7bn (£1.03bn) in an initial payment for liabilities stemming from its ownership of US tobacco company Brown & Williamson, analysts estimate.

In the US, the 40 state attorneys-general will receive no financial benefit from the deal. But most of them have political ambitions, aspiring to become state governors and senators, and they will bathe in the glory of their perceived triumph over the tobacco companies. They will also collect the credit in their home states for winning big financial payouts from the industry.

The hundreds of trial lawyers involved in litigation against the tobacco industry will expect to become very rich.

Typically, US trial lawyers working on a contingency fee basis expect to receive 33 per cent of any settlement. That figure would be too high to be politically acceptable in this case: but one person close to the negotiations said it would not be surprising to see the lawyers trying to secure, say, $2bn a year of the $15bn-a-year payout.

· OBSERVER ·

Boycotting the boycott

■ Britain's attempt to drum up support for its stand against China's appointed legislature for Hong Kong is looking rather forlorn. The Philippines have now joined Japan, Australia, and New Zealand in going to the swearing-in ceremony during next week's handover. So far, only the US is joining Britain in staying away.

As one of Asia's more advanced democracies, the Philippines might have been expected to have doubts about attending. But it also wants to maintain good relations with Hong Kong because it's got a large number of nationals working there. Foreign minister Domingo Siazon Siazon says there are few worries. "China says it's going to have elections in Hong Kong. That's good enough for us."

Meanwhile, a late invitation to the beanfeast has arrived for Australian media magnate Rupert Murdoch, no doubt a reward for his patient diplomacy with the Chinese government. This culminated in a speech in Tokyo last month which looked like a determined pitch to link up with the Chinese in developing satellite television in China.

He'll apparently turn up – but will he stay on with his Chinese hosts for the swearing-in, or make his excuses and leave early along with the US and British party poopers? Observer suspects he'll see it through.

Shrinking feeling

■ The days of swashbuckling Greek shipping tycoons could be over. Following the death last year of Stavros Niarchos, his sons Philip, Costas and Spyros have opted for a new era of caution.

The Niarchos fleet has shrunk from 18 to 12 ships and the family fortune, conservatively estimated at $5bn, is being stashed away in a Lichtenstein-based foundation. At least the brothers Niarchos are dutifully carrying out one of their authoritarian father's last wishes: to spend a few hundred million dollars on two new super-tankers.

But, beyond that, it seems the shipping dynasty is following the wealth-preserving strategy of their old rival Aristotle Onassis, who died in 1975.

Onassis left his money to a Lichtenstein-based charitable trust. Its board, headed by lawyer Stelios Papadimitriou, trimmed the Onassis fleet to a manageable 20 vessels which earn a tidy income for Athina, the tycoon's 12-year-old grand-daughter and the last surviving family member. So if it's good enough for Onassis, must be good enough for Niarchos.

Dirty money

■ The ugly sight of rolling heads in Tvedestrand, a small town south of Oslo, after a hapless local bank employee accidently threw out $90,000 in the daily rubbish. Staff and local police are sifting the town dump in the hope of finding the missing notes; any recovered will, of course, need laundering.

Comeback kid

■ Not much has been heard lately from Toronto's Cott Corporation, the private-label soft drinks bottler that gave Coke and Pepsi a scare in the early 1990s. First it had a financial scare of its own, culminating in a restructuring two years ago. Then Gerald Pencer, Cott's ebullient chairman and chief executive, had surgery for a brain tumour.

But Pencer, 53, wants the world to know he's ready for action again. With the theme from *Rocky* blaring over loudspeakers, a spotlight dancing around the room and a standing ovation from shareholders, he jogged into Cott's annual meeting wearing a hooded white robe, boxing gloves and a baseball cap emblazoned with the slogan The Magic is Back.

"I've always dreamed of having an entrance like that," he told shareholders. Pencer had more good news, with Cott restoring its dividend. He plans to give up some of his operating duties but, true to form, won't be relinquishing any of his titles.

Long delay

■ A joke circulating in Swiss government circles may give some clue as to how the Swiss see the likelihood of joining the European Union.

Three ministers – German, Italian and Swiss – are seeking heavenly advice. The German asks God how long it will be before Germany's neo-Nazi problem is solved. On being told it will be five years, the German minister complains his party will be out of office by then. The Italian minister wants to know how long it will take to conquer Italy's mafia problem. Six months, says God, which is not what the Italian wanted to hear since his government would be out of power by then. Finally, it's the Swiss minister's turn. How long will it be before Switzerland joins the EU? There's a long pause before God indicates . . . He'll be out of office by then.

The Financial Times

100 years ago

Speculating In Texas B
Some people have curious ideas as to how money may be made by speculation on the Stock Exchange. The following is a letter received by us: "What are Texas B shares, and are they good to buy for a rise?" We cannot too highly commend the prudence of our correspondent in endeavouring to ascertain what the shares were before proceeding to gamble in them. For the enlightenment of this unique operator, we may explain that Texas B are the deferred shares of the Alabama, New Orleans, Texas and Pacific Junction Railways Company. Their nominal value is £10, no dividends have ever been paid on them and their present quotation is half-a-crown (£0.125) to seven-and-sixpence (£0.375).

50 years ago

Mr. Clayton In London
Mr. William Clayton, U.S. Under-Secretary for Economic Affairs, arrived yesterday from Washington in a Skymaster airliner. He is on his way to Geneva. He will discuss with Ministers of the British Government reactions in Europe to the Marshall Plan. He is expected to see Mr. Dalton, the Chancellor of the Exchequer.

FINANCIAL TIMES
Monday June 23 1997

Foreign managers lift share of Japan funds

By Gillian Tett in Tokyo

European and US fund managers have made deep inroads into Japan's huge pension business, almost doubling assets under management to Y7,270bn ($63.7bn) from Y3,759bn in the 1996 fiscal year.

The Japan Securities Investment Advisers Association said specialist foreign investment advisers saw particularly sharp growth: their funds more than trebled in this period in a surge that particularly benefited British and other European companies.

The increase provides new signs that financial deregulation is opening up business opportunities for foreign groups – particularly in Japan's pension sector, the second-largest and one of the fastest growing in the world.

And though foreign groups still have only a tiny share of Japan's pension sector – estimated to have assets of about Y230,000bn – observers say the foreign inroads will continue.

Mr Peter Wolton, head of Schroders Investment Management in Tokyo, said: "We expect annual growth of at least 50 per cent for the next few years – we have doubled our staff to prepare for this."

The surge is also attracting new foreign entrants: this month Putnam, the US group, concluded a tie-up to manage overseas funds for Nippon Life, Japan's largest life assurer.

Mr Simon Boote, managing director of UBS Trust and Banking in Tokyo, said: "Foreign groups are still only gathering up the crumbs under the table – but they are very, very big crumbs. The prize is the huge pool of assets there."

The trend has been partly triggered by growing concern among Japanese companies and life assurance groups about the low rates of return they have previously earned on investments. This has left many turning to foreign groups to boost these returns.

But the trend has also been fuelled by regulatory changes, which have made it both easier for Japanese companies to use foreign groups for overseas portfolio investment, and given foreign groups greater freedom to operate in Japan.

Foreign investment advisers, which tend to offer specialised services and focus on corporate pension funds, have grown rapidly: they raised the contract value of discretionary funds under management from Y776bn to Y2,420bn in the year to March 1997.

The investment adviser arms of big Japanese companies such as IBJ and Nomura also expanded rapidly. But foreign groups expanded at twice the rate of Japanese companies, pushing their share of the investment adviser sector from 16 per cent in March 1996 to 21 per cent in March 1997.

The main beneficiaries were UK and other European groups: Barclays, which has a joint venture with Nikko, became the largest foreign investment adviser, followed by Schroders, Deutsche Morgan Grenfell, Mercury Asset Management and Jardine Fleming.

Foreign trust banks saw slower growth, with assets rising from Y2,983bn to Y4,850bn, according to data compiled by the banks. The largest was the US's Bankers Trust – which almost doubled funds under management to Y1,114bn.

Bank of England and SIB in talks on supervision

By George Graham and John Gapper in London

The Bank of England and the UK's Securities and Investments Board are negotiating a detailed agreement on how to handle banking collapses after the transfer of responsibility for banking supervision to the new "super-SIB".

Mr Howard Davies, deputy governor of the Bank and chairman designate of the SIB, said the Treasury would probably publish a memorandum of understanding to resolve doubts about the organisation of banking rescues.

There has been some ambiguity about how the Bank's role as "lender of last resort" to banks in trouble will be combined with the SIB's new responsibility for banking supervision disclosed last month.

"There will be value in explaining to the marketplace how all this works so people know, when they think they are going bust, to whom they should address themselves," Mr Davies said in an interview.

He said the chairman of a failing bank would be expected to pay his first call on the new SIB. But the Bank, which retains responsibility for the safety of the financial system, would become involved in any potentially serious failure.

In recent cases where banks have been in trouble, such as the collapse of Barings in February 1995, the Bank has tried to organise a "lifeboat" with contributions from other banks as well as considering the use of public money.

Although the Bank has argued that there is no conflict of interest between the role of supervisor of individual banks and guardian of the financial system, Mr Davies said the new structure would eliminate any possibility of conflict.

"You could conceive of a situation in which an institution responsible for supervision would say: 'Whoops, this is a systemic crisis,' when actually what it was was a failure of supervision," he said.

In future, he said, there should be "a greater clarity about who is responsible for what". However, this would require the Bank and the SIB to achieve a strong working relationship from early on.

The SIB's assumption of responsibility for banking supervision has also called into question the future of cash ratio deposits, which banks must hand over to the Bank of England in proportion to their deposit base.

The deposits are interest-free and reinvesting the proceeds provides the Bank with its principal source of income.

THE LEX COLUMN

Smoke-screens

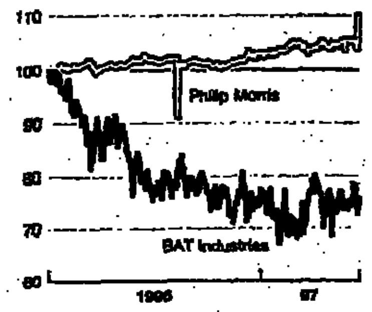
Big tobacco in the US will be relieved at the fall in its share prices after Friday's announcement of a "punitive" $368bn settlement. The deal needs congressional approval, so tobacco companies must show they are being squeezed. And given the headline sums and the power of the tobacco and legal lobbies, there is a good chance it will survive in close to its current form.

But the deal does not look too punitive. Talk of a £368bn hit is misleading. The $10bn down payment is tax deductable, so it is really less than $7bn. The rest is covered by an initial tax rise of around 50 cents per pack. But the tax charge on cigarettes would still be far lower than in the UK, for example. And the UK tobacco industry is in robust shape. Tobacco valuations will be restrained by the risk of government dissent. Moreover, there could be a 15 per cent drop in cigarette sales after tax increases, and consumers might trade down to cheaper brands after the advertising ban. On the plus side, there would be lower legal and advertising costs. But all this is dwarfed by the potential removal of the sector's vast litigation risk discount. As to the threat of tobacco litigation spreading elsewhere, it pales beside the risk that US lawyers will search for another victim, perhaps makers of cars or alcohol.

BAT Industries could be the biggest winner. It has a comparatively small US tobacco business which is strongest in discount brands. Assume a 20 per cent drop in US profits and subtract BAT's £720m after-tax down payment, and its US business would still be worth well over £2bn. That's definitely better than the current implied valuation of next to nothing.

Tobacco giants

Share prices relative to the S&P Tobacco Index ($ terms)



Source: Datastream

European takeovers

Are the British government and the Takeover Panel right to be so energetically opposed to a European takeover directive? At first sight, the issue does not look clear-cut. After all, the odds in many Continental countries are stacked against both hostile bidders and minority shareholders. Fairer rules are all too obviously needed.

But that is not what is on offer. Instead, the European Commission is promoting an unhappy compromise. Its proposed takeover directive risks weakening the great strength of the British non-statutory system – the Takeover Panel's ability to take binding decisions quickly and flexibly. Equip bidders and targets with a directive and they would be able to litigate over the Panel's head, bogging bids down to no one's advantage.

This might be a price worth paying if, in exchange, the new directive offered real improvement in takeover regimes elsewhere. But no such luck. The directive's theoretical aims of protecting minority shareholders and preventing target boards from frustrating bids have been hopelessly watered down; little if any bite remains. Even worse, the European Parliament's legal affairs committee – disgusted by "bids whose sole motive would be to obtain purely financial advantages" – has spotted the opportunity to add an ill-considered duty to safeguard jobs. There is a reasonable case for a directive devoted to protecting investors' rights across Europe. But this is not it.

Cost of capital

What is British industry's cost of capital? Many academics say around 12 per cent. Most stockbrokers think it is in high single digits. An arcane debate perhaps – but the answer is fundamental both to valuing stocks and companies' investment decisions. The main reason for the divergence is that the academics are looking backwards. The essential component is the risk premium for holding equities. Academics are impressed by the fact that equities have, on average, delivered annual returns between 7 and 8 per cent higher than gilts. But many in the City believe the risk premium looking forward is between only 3-5 per cent.

Lex leans towards the City view. Backward-looking analysis gives inflated estimates. For a start, past generations of gilt investors were robbed by unanticipated inflation – meaning equity investors did unexpectedly well by comparison. Moreover, the current generation of investors might quite rationally demand a lower premium than their predecessors: the macroeconomic environment is arguably more stable; and it is easier nowadays to diversify risk through holding balanced portfolios.

What then is the right number? One approach is to appreciate that the cost of equity is simply the total return investors expect – or the market yield plus the trend growth rate of dividends. The yield, 3 per cent from the perspective of a basic rate taxpayer, is easy enough to discover.

The trend growth of dividends is a controversial. Trend economic growth, say 2½ per cent, is clearly a starting point. But can dividends grow no faster than the economy? In the very long run, yes – or total dividends would eventually exceed the size of the economy. But for a decade or two, dividends could easily grow faster than the economy. Profits might take a bigger share of the economic cake or a bigger portion of earnings could be paid out in dividends – not to mention the fact that a large part of British company profits are earned overseas.

This is not just a theoretical possibility. In the past 15 years, dividends have grown faster than the economy – at just over 6 per cent a year in real terms. Such growth may be implausible looking forward. But 4 per cent or so seems reasonable – equivalent to 7½ per cent in nominal terms, given 3½ per cent anticipated trend inflation (the rate implied by the difference between ordinary gilt yields and index-linked ones). Add on the 3 per cent dividend yield and a reasonable guess for the cost of equity is 10½ per cent.

To calculate the cost of capital, one last piece of the jigsaw is needed: the cost of debt. For blue chips, this is about 7½ per cent pretax (half a percentage point more than government bonds) or 5 per cent on an after-tax basis. Given net debt amounts on average to 10 per cent of quoted industrial companies' market capitalisation, that gives a weighted average cost of capital of 10 per cent. Of course, low-risk businesses such as utilities will have a lower figure; and high-risk ones a higher figure. But, as a rough benchmark for most companies, Lex plans to use 10 per cent.

Summit row on pollution

Continued from Page 1

many imports from Africa than the US and that it provides more than seven times as much aid.

The leaders also pledged $300m to cover up the damaged nuclear reactor at Chernobyl, and they welcomed Russia as a full participant in almost all of the summit proceedings.

British officials promised that next year's summit in Birmingham, England, would be more focused.

Eurotunnel investors

Continued from Page 1

banks to support the plan.

Eurotunnel is receiving 1,000 calls a day to a telephone hot-line set up to help shareholders before the extraordinary general meeting. It is warning that a vote against the restructuring plan makes a filing for bankruptcy highly probable – a view which is contested by Ms L'Hélias.

If shareholders block the deal, creditor banks are believed to be pushing to exercise their right of "substitution", by which they have the power to take charge of the Channel tunnel and appoint another operator in place of Eurotunnel if their debts are not paid.

Jospin presses for Dassault merger with Aerospatiale

By David Buchan in Paris

Mr Lionel Jospin, the French Socialist prime minister, favours a merger of the country's two aircraft makers, state-owned Aerospatiale and private sector Dassault, to create a national champion in defence and aerospace.

He also backed calls for Airbus Industrie to be converted from a loose consortium into a single company, a move that has been opposed by Aerospatiale – one of the Airbus partners – in the past.

However, Mr Jospin did not say whether a combined Dassault-Aerospatiale group would be in the public or private sector. His party opposes privatisation, but he faces pressure from Dassault, and from Aerospatiale's partners in Airbus, to press ahead with the sale of the defence and aerospace industries.

In a speech at the Le Bourget air show at the weekend, Mr Jospin said he needed more time to study the options, but added: "I can already tell you that I consider essential the rapprochement between civil and military technology in the aeronautic sector."

Last Thursday, Mr Jospin told parliament he was against privatisation "where it cannot be justified on grounds of national interest". But Mr Serge Dassault, chairman of the military aircraft company, has repeatedly made clear that he will merge his company with Aerospatiale only if the combined group is privatised.

Mr Jospin is also under pressure to drop his opposition to privatisation from the German government and from Daimler-Benz Aerospace, one of the Airbus partners.

Mr Volker Rühe, Germany's defence minister, said at the Le Bourget airshow that such European alliances would have to be in the private sector, as was the case in the US.

The prime minister's support for the change is significant in view of the way state-owned Aerospatiale has been dragging its feet in recent negotiations over the issue of transferring its factories and fixed assets to a new Airbus entity.

Mr Jospin must also decide on the privatisation of Thomson-CSF, which the previous rightwing administration had been trying to sell for 18 months and which had been due to be auctioned by the end of the month.

He promised to weigh its future "solely in the light of the national interest, without taboos or ruling anything out or being shut into pre-established solutions, and with the aim of allying it with other European partners".

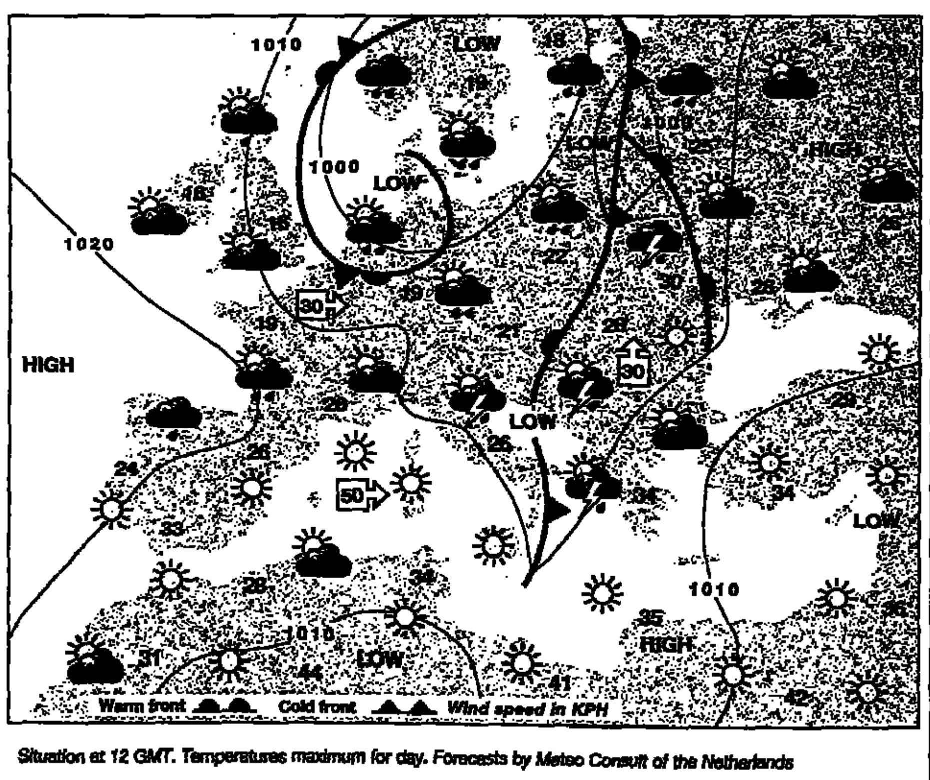
FT WEATHER GUIDE

Europe today

Most of northern and central Europe will be cloudy. Northern and western Germany will have widespread showers.
The Netherlands, Belgium and northern France will be showery.
Showers will have become less frequent over the past 24 hours in England and Scotland, although eastern areas might have a few wet spells.
The area stretching from Belarus through northern Romania and Hungary into Bosnia and Croatia will have heavy rain with thunder showers.

Five-day forecast

Northern Europe will remain unsettled with widespread rain throughout Scandinavia.
Western Europe and the British Isles will be dry on Tuesday and Wednesday before showers return on Thursday and Friday, especially over England.
Settled conditions with partly sunny skies and seasonable temperatures are expected in central Europe.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum	Beijing	sun 36	Caracas	thund 31	Faro	sun 26	Madrid	sun 27	Rangoon	shower 31
	Celsius	Belfast	fair 16	Cardiff	sun 17	Frankfurt	shower 17	Majorca	sun 25	Reykjavik	cloudy 12
Abu Dhabi	sun 40	Belgrade	cloudy 28	Casablanca	sun 23	Geneva	cloudy 20	Malta	sun 28	Rio	sun 30
Accra	fair 29	Berlin	shower 19	Chicago	fair 34	Gibraltar	sun 27	Manchester	cloudy 15	Rome	sun 26
Algiers	sun 25	Bermuda	fair 29	Cologne	rain 16	Glasgow	sun 19	Manila	thund 36	S. Frsco	fair 21
Amsterdam	shower 16	Bogota	thund 18	Dakar	fair 30	Hamburg	rain 17	Melbourne	fair 15	Seoul	fair 31
Athens	sun 34	Bombay	shower 30	Dallas	thund 32	Helsinki	rain 20	Mexico City	thund 29	Singapore	fair 33
Atlanta	thund 36	Brussels	shower 17	Delhi	fair 34	Hong Kong	thund 31	Miami	thund 32	Stockholm	fair 19
B. Aires	shower 17	Budapest	shower 21	Dubai	sun 40	Honolulu	fair 31	Milan	sun 22	Strasbourg	rain 18
B.ham	cloudy 16	C.hagen	shower 16	Dublin	fair 17	Istanbul	sun 28	Montreal	sun 26	Sydney	fair 18
Bangkok	thund 37	Cairo	sun 33	Dubrovnik	sun 29	Jakarta	fair 32	Moscow	cloudy 23	Tangier	sun 25
Barcelona	sun 22	Cape Town	shower 16	Edinburgh	fair 16	Jersey	fair 15	Munich	cloudy 23	Tel Aviv	sun 30
						Karachi	fair 37	Nairobi	fair 23	Tokyo	rain 26
						Kuwait	sun 48	Naples	sun 27	Toronto	fair 29
						L. Angeles	fair 24	Nassau	fair 31	Vancouver	shower 18
						Las Palmas	fair 26	New York	sun 33	Venice	shower 24
						Lima	fair 26	Nice	sun 26	Vienna	shower 21
						Lisbon	sun 24	Nicosia	fair 31	Warsaw	rain 19
						London	shower 19	Oslo	rain 17	Washington	sun 34
						Lux.bourg	rain 14	Paris	cloudy 19	Wellington	fair 13
						Lyon	cloudy 22	Perth	fair 19	Winnipeg	rain 22
						Madeira	fair 22	Prague	fair 19	Zurich	rain 17

Liechtenstein

As a rich tax haven with a well diversified economy, the principality's few economic and constitutional dilemmas stem from its own success. Survey written by **William Hall**

Conflicting demands

A tiny principality of 31,000 people wedged between Austria and Switzerland, Liechtenstein is not only one of the world's richest countries but it has also escaped most of the problems which have afflicted its bigger neighbours in the past 50 years.

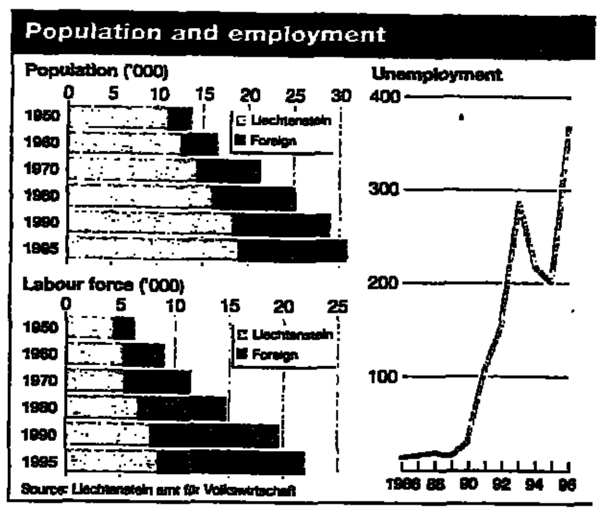
It is more than 20 years since there was a recession in Liechtenstein and it has been virtually untouched by the recent economic problems of the rest of Europe. Admittedly, the number of unemployed in Liechtenstein rose last year, but the figure is still equal to only 1.5 per cent of the workforce and shortage of staff rather than shortage of work is the main constraint on Liechtenstein's economic growth.

Liechtenstein, unlike other tax havens, is a model of a well diversified economy. Roughly half its workforce is employed in industry, compared with a third in neighbouring Switzerland. Gone are the days when Liechtenstein's livelihood depended on artificially high sales of postage stamps and shady letter box companies. Today, Liechtenstein is home to some world class companies, such as Hilti in construction services and Balzers in information technology.

Exports per head of the population are roughly four times more than in Switzerland, and Liechtenstein's banks, led by the royal family's Liechtenstein Global Trust, are starting to make their mark in international money management and private banking.

In the political arena, Liechtenstein's recent foreign policy initiatives have also met with success. It still enjoys the benefit of close financial ties with Switzerland. The two signed a customs treaty in 1923, have no border controls, and have shared a common currency for more than 70 years. Yet this has not stopped Liechtenstein from gently breaking away from Switzerland by joining the United Nations in 1990 and the European Economic Area in 1995.

Population and employment



Source: Liechtenstein amt für Volkswirtschaft

Brussels, rather than Berne, is now Liechtenstein's main diplomatic listening post. Unlike Austria, which is having second thoughts about its enthusiastic endorsement of membership of the European Union, and Switzerland which is regretting its refusal to join the UN and the EEA, Liechtensteiners seem pleased with the way things have turned out.

Mr Pius Baschera, chief executive of Hilti, Liechtenstein's biggest company, says that EEA membership was a very important move for Liechtenstein and it has only had positive effects for Hilti. Mr Hans Brunhart, who was prime minister of Liechtenstein for 15 years and now chairs VP Bank, believes that if Liechtensteiners were to be asked to vote again on EEA membership, "we would have the same or an even better result".

This glowing picture of a country with the population of a small English market town is borne out by its recent triple A credit rating from Standard & Poor's and Moody's, the top two US rating agencies. S & P says that Liechtenstein's "small, open, and diversified economy has a long track record of solid growth, low inflation and minimal unemployment". Liechtenstein's top credit rating is based on its very strong fiscal position, including negligible debt; favourable economic policy environment and long-standing political stability.

But despite this glowing report there are a few storm clouds on the horizon. Earlier this year, the coalition of Liechtenstein's two main political parties which had governed the country for 60 years, finally collapsed. For the first time since the second world war, Liechtenstein has a formal opposition party and this is likely to increase the noise, if not the effectiveness of political dissent.

In addition, the long rumbling constitutional row over the role of the Prince in the country's affairs is back on the agenda following a decision by the European Commission of Human Rights to hear a complaint of a disgruntled Liechtenstein judge who believes that the ruling Prince has exceeded his powers by refusing to reappoint him.

Liechtenstein, according to its constitution, has a "constitutional hereditary monarchy upon a democratic and parliamentary basis". This means that the prince and the people must work together to enable the state to function. The system has worked well for the last 70 years but has started to look a bit outdated in a Europe where most hereditary monarchs have long since abandoned any pretence of real power.

If the ruling prince does not like the look of a judge proposed by Parliament, what is to stop him dismissing a government he does not agree with, or locking away in his top drawer a law he cannot accept?


Vaduz castle: home to the Royal family, whose constitutional role needs to be better defined *Fergus Wilkie*

The Prince's role in the constitution needs to be better defined to avoid the outbreak of constitutional crises which, if allowed to fester, could undermine Liechtenstein's reputation for political stability. Would Liechtenstein be as popular as a tax haven if it were to dump its monarch and join forces with Switzerland or Austria? Probably not. By the same token the fortune of the Liechtenstein royal family has been built on the back of Liechtenstein's special fiscal privileges. It is far from clear that these could be safeguarded if the royal family were to transfer to another jurisdiction.

The second problem facing Liechtenstein is how to deal with its economic success. More than a third of its population and close to two thirds of its workforce are foreigners. The government is anxious not to dilute the Liechtenstein identity by increasing the foreign content of its population. Yet at the same time it is passing new legislation to encourage the launch of investment funds and the creation of a captive insurance industry.

Such initiatives highlight the policy dilemmas facing the Liechtenstein government. To date it has managed to balance the conflicting demands reasonably well and also continue to win special treatment with regard to the acceptance of the EEA's rules on free movement of people.

However, Liechtenstein will face increasing pressure to relax its incredibly tight rules on granting citizenship.

At present the local commune in which a foreigner lives has the right to blackball any applications for Liechtenstein citizenship. Given that most Liechtenstein families came from Switzerland and Austria, the retention of such tight controls over who can become a Liechtenstein citizen no longer seem acceptable.

The third potential problem area for Liechtenstein concerns the future prosperity of its financial services industry. Liechtenstein's main assets are its low taxes and its bank secrecy laws and a challenge to either would dent its attractiveness as an offshore centre. All fiscal matters were excluded from the EEA treaty and Liechtenstein has not entered into any double taxation agreements with other countries, except for Austria. Nevertheless, there is always the theoretical danger that Liechtenstein's fiscal privileges could be threatened by any move towards greater fiscal harmonisation within EEA member countries. Meanwhile, Liechtenstein's response to any moves by Switzerland to raise the rate of its value added tax, which it shares with Liechtenstein, will give a clue to Liechtenstein's fiscal independence.

In the short term, however, the biggest danger is likely to come on the bank secrecy front. Liechtenstein has passed new laws to combat insider trading and money laundering and has tightened up the rules governing the behaviour of its fiduciaries. This new regulatory regime has yet to tested. No fiduciaries have lost their licence to operate and there has not been a successful prosecution of a money laundering case.

If the new regulations work too well, then they could dent Liechtenstein's appeal to investors who prize their anonymity. On the other hand, if they are interpreted too laxly, then Liechtenstein will face pressure from its new EEA partners to put its house in order. EEA membership carries responsibilities as well as benefits.

The challenge facing Liechtenstein is to balance the need for integration in a larger economic framework so as to promote economic prosperity, with the implementation of steps to safeguard its independence. To date it has been remarkably successful in striking the right balance.

PROFILE Prince Hans-Adam II

Raising the stakes

The Prince has updated foreign policy and is now looking at the monarchy itself

"This country not only owes its very existence to the political decision of a Prince but has again and again benefited from the decisions of Princes of the time." Prince Hans-Adam II, opening speech to the Liechtenstein parliament, May 1993.

If Prince Hans-Adam II, 52, was a superstitious head of state, he might be worried that he is the 13th reigning prince of Liechtenstein and he came to power on November 13, 1989. It was not the best of omens for Europe's last reigning monarch with real power over his people.

Although Prince Hans-Adam has been effectively running the family business since 1972, he has yet to attain the level of popular affection accorded to his father, Prince Franz Josef II, or Prince John II, who ruled Liechtenstein from 1858 to 1929. The latter donated SFr75m to Liechtenstein, despite having lost the family's huge estates in Czechoslovakia, and was nicknamed "John the Good" as a result.

However, effective monarchs are not necessarily popular and Prince Hans-Adam has probably done as much as his two predecessors to put Liechtenstein on the map. He successfully reorganised the family's finances, which is important since the Liechtenstein royal family, unlike most of Europe's royal families, still foots the bill for the upkeep of its castle and royal household. "I have to earn enough in the morning so that I can afford to be Prince in the afternoon," says the Prince. As the ultimate owner of LGT, the country's biggest financial institution, the royal family is also probably the country's largest taxpayer.

Since he succeeded his father, Prince Hans-Adam has concentrated on modernising the country's foreign policy. He led Liechtenstein into the United Nations and helped push through membership of the European Economic Area, even though neighbouring Switzerland, to which Liechtenstein is closely tied, balked at the last moment. The changing balance of power has meant that Prince Nikolaus, the Prince's younger brother and the country's chief diplomat, is now based in Brussels rather than Berne.


Hans-Adam: businessman in the morning, Prince in the afternoon

Membership of the EEA has lived up to expectations, says the Prince. "If we had not joined, I think there would have been a danger that some of our companies would have moved some jobs out of Liechtenstein. It would only have shown up over several years." Liechtenstein, despite its close ties to Switzerland, is much more integrated with the EEA, which takes 40 per cent of its exports.

Having solved the problem of European integration, the Prince is now turning his attention to a more prickly issue – the future role of the monarchy. The issue has been festering for several years and, like constitutional debates in other countries, there is no quick answer. However, the recent decision of the European Commission of Human Rights to hear the case of Dr Herbert Wille, a Liechtenstein judge who disagreed with the Prince, suggests that the constitutional debate is about to take on a certain urgency.

Dr Wille, who presided over the administrative court which hears complaints against government decisions, was proposed for a further term and the Prince thought it better if someone else was chosen. Dr Wille's supporters see it as a test of whether parliament or the Prince has the ultimate right to appoint the country's judges. The matter is complicated since Dr Wille's job has now been filled by another lawyer.

The Prince, for his part, wants to take the appointment of judges out of the political arena. He sees his duty as making sure that the Liechtenstein judiciary is independent and not filled by the government's political cronies. Under his plan, the ruling Prince will nominate the judges and parliament will decide whether they are acceptable.

The Prince regards the issue of Dr Wille as a relatively minor element in his plan to strengthen the democratic principle inside the constitution. "We have to adapt the 1921 constitution to make it more democratic and our courts more independent," says the Prince. The Prince's definition of democracy rests on the tenet that Liechtenstein has two sovereigns: the people and the Prince. Parliament has an important role in the country but the last word belongs to the two sovereigns and this implies that the Prince's instructions carry more weight than those of the parliament.

The constitutional reforms that he is proposing would reinforce the possibility of self determination right down to the small community. This helps explain why the main opposition to the proposals is coming from parliament since it has the most to lose. By the same token, if the Liechtenstein people want to remove the ruling Prince or even abolish the monarchy, he will accept their decision.

He is convinced, however, that the majority of the population continues to want a strong monarch. "But we are only going to provide and pay for a monarch if certain conditions are met," says the Prince. If the royal family furnishes a head of state, wherever that may be, it has to be for a democratic state which abides by the rule of law. The second condition is that the state has to respect the autonomy of the princely family.

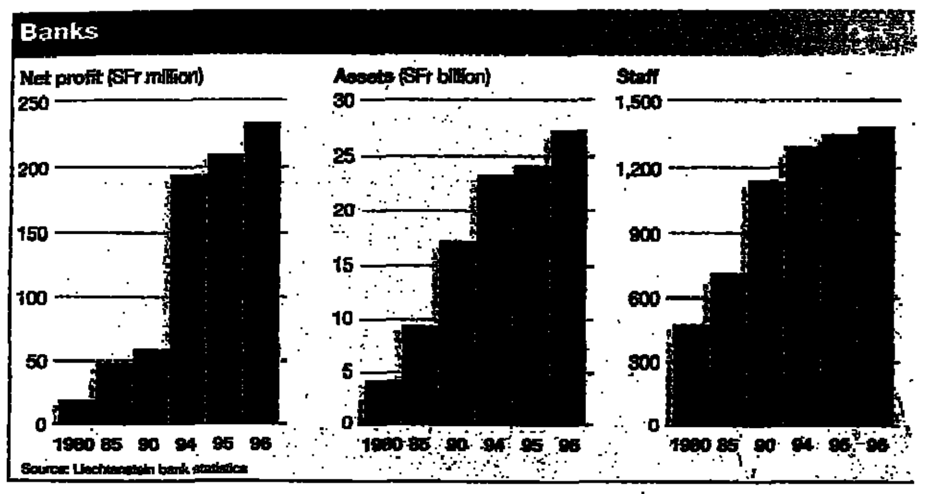
There is a lot at stake for both sides. The Prince denies that he ever threatened to sell Liechtenstein to Bill Gates, the founder of Microsoft. However, he insists that if the Liechtenstein population wants to change the conditions under which his family rules, then "they should speak with someone else who is prepared to pay for the upkeep of the monarch". The idea of a wealthy businessman, such as Bill Gates, taking over Liechtenstein, and renaming it Microsoft, may not be as far-fetched as it sounds.

BANKING

New rules and foreign banks threaten bonanza

Membership of the EEA is exposing the big three to serious competition

Liechtenstein's banking system is humming. The big three banks, which control over 95 per cent of the market, have all reported higher profits, increased their dividends, and are taking on extra staff. LGT Bank in Liechtenstein has just opened a new dealing and logistics centre a few miles north of Vaduz, and the newly modernised headquarters of the other banks testifies that business is good.



Source: Liechtenstein bank statistics

The prosperity of Liechtenstein's banking system is in stark contrast to the domestic problems of the neighbouring Swiss and Austrian banks. The big three Swiss banks all lost money last year and Austrian banks have been suffering from weak margins caused by too much banking capacity. Banks in both those countries have been shedding staff and closing branches whereas numbers employed in Liechtenstein banking continue to grow.

In 1945 Liechtenstein had two banks with a combined balance sheet total of SFr38m. At the end of 1996 it was SFr27.4bn. A decade ago the banks earned less than SFr50m in total. Last year they reported combined net income of SFr232.5m and in terms of taxes and dividends paid accounted for over 12 per cent of Liechtenstein's national income.

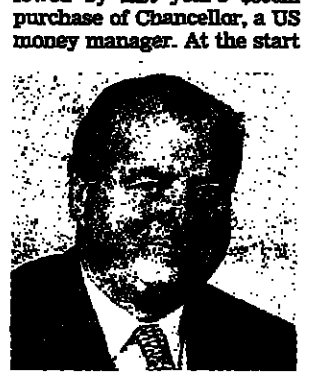
Stockbrokers in Zurich have started tipping the shares. A report published earlier this year by Credit Suisse First Boston's Madeleine Hofmann, showed that Liechtenstein Global Trust (LGT) and VP Bank had increased their earnings per share by over 25 per cent a year between 1991 and 1995, which was nearly twice as fast as the growth in earnings of Julius Baer and Vontobel, Zurich's two best-known private banks. In 1996, LGT boosted its earnings by a third and now earns more money than Baer or Vontobel.

The main reason for the strong performance of the Liechtenstein banks is that the Liechtenstein economy is in much better shape than the Swiss economy. Liechtenstein banks have not been burdened by the need to make big provisions on their domestic business. In addition, they have benefited from being located in a country which has a user-friendly company law structure, low taxation and a tradition of bank secrecy.

In Liechtenstein all three banks offer much the same service. Nevertheless, their strategies are very different. Liechtenstein Landesbank, the largest and oldest bank, has been partly privatised but remains well rooted in the local community. It is the only bank with a local branch network and does nearly half of all mortgage lending. It has been slow to cultivate international customers but this is starting to change. It has been quicker than the competition to take advantage of Liechtenstein's new fund management rules by launching new equity funds for its customers. But it is still well behind the other two banks in the size of its asset management business.

VP Bank, headed by Mr Hans Brunhart, a former prime minister of Liechtenstein, is the youngest of the big three. It was founded in 1956 by Allgemeines Treuunternehmen, one of the oldest and biggest Liechtenstein trust companies, and the two still have close boardroom and shareholder ties. For a long time it was not allowed to compete with the landesbank, and, although this no longer applies, it concentrates on private banking and asset management in German-speaking markets. Its decision to open overseas outposts in places such as Montevideo in Uruguay and Breda in the Netherlands, rather than London, Geneva or New York, gives a clue to the clients it is targeting.

By contrast, LGT, owned by the royal family, has become a significant international player. It set up in London more than a decade ago and its £100m acquisition of GT, a UK fund manager, in 1989, has been followed by last year's $300m purchase of Chancellor, a US money manager. At the start of the 1980s Bank In Liechtenstein, as it was then known, had a staff of 150, and all worked in Liechtenstein. Today, LGT employs close to 2,000 and roughly three quarters work outside Liechtenstein.



Former prime minister Hans Brunhart heads VP Bank, the youngest of the big three

However, there are signs that Liechtenstein's banking bonanza may be starting to fade. Until the mid-1980s the balance sheets of the Liechtenstein banks had been roughly doubling every five years and there were just three banks. Now they have been joined by Neue Bank and Centrum Bank, and judging by the latter's profitability, there are still rich pickings to be had by setting up a local bank. In its first full year Centrum, with a staff of 36, earned SFr7.3m on capital of SFr33m – the highest rate of return of any Liechtenstein bank.

In the old days a new bank could only open in Liechtenstein if it was proven that there was a need. This no longer applies. Liechtenstein is still off limits to the big Swiss banks, the most obvious competitors. But membership of the European Economic Area means that foreign banks are now allowed to open in Vaduz. The first to take advantage was the Voralberger Volksbank, which has 22 branches in the neighbouring Austrian province of Voralberg. Dr Hubert Kopf, its chairman, is keen to capture some of the money that appears to be flowing out of Austria. It stresses in its advertising that Liechtenstein bank secrecy laws will cover its clients. The Hypo Voralsberg bank has also registered its interest by opening a representative office in the Austrian consulate in Schaan. Problems of getting work permits and adequate accommodation will delay the entry of foreign banks, but it would be surprising if some well known names had not set up within the next five years.

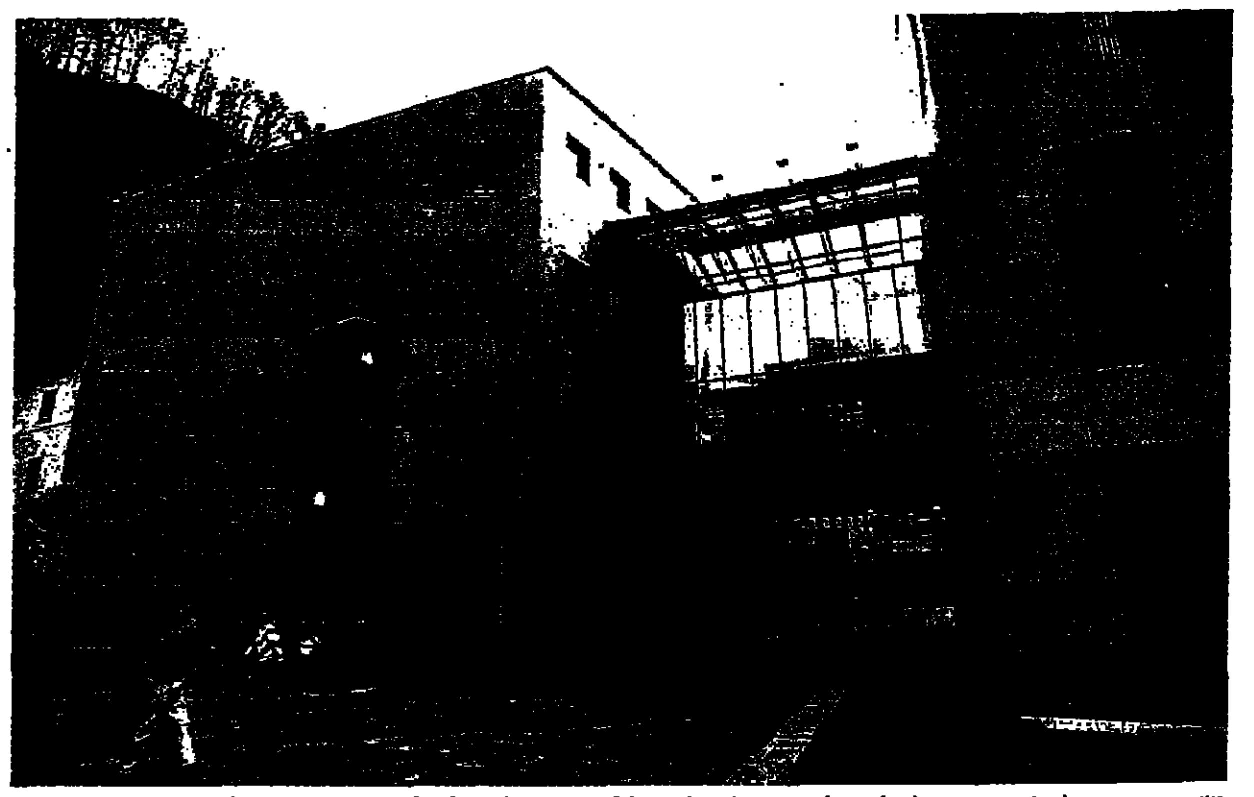
The second reason why the Liechtenstein banking boom may have peaked involves regulation. Liechtenstein is no longer a banking centre which accepts deposits first and asks questions later.

At the start of 1997, a new due diligence law governing professional duties for banks receiving assets came into effect. It replaces an informal agreement on combating money laundering and covers not only banks but attorneys and fiduciaries. Under the provisions of the law, the identity of the client, the economic beneficiary and the person depositing the assets has to be established. A bank is obliged to identify the parties involved in a deposit of SFr25,000 and upwards. The minimum had been SFr100,000.

Banks are now required to inform the Liechtenstein bank supervisor where there is a strong suspicion of money laundering or participation in a criminal organisation. All the banks have publicly applauded the tightening of the rules to prevent criminally obtained assets from flowing through Liechtenstein.

However, there is an unspoken worry that the tightening of the rule book could dent Liechtenstein's attractions as an offshore financial centre. Mr Roland Müller, a former Hilti financial controller who now heads the five-strong banking supervision authority, is keen to demonstrate his independence. Liechtenstein has already blocked suspicious funds in three or four cases and there are 10 cases going through the courts. If the authorities decide to freeze these funds, on the ground that there is a money-laundering case to answer, then the publicity could backfire on Liechtenstein.

The combination of increased competition and tighter rules could dent Liechtenstein's appeal as an offshore financial centre. Its main attractions remain its bank secrecy laws and its low tax regime. Provided these conditions remain in tact then Liechtenstein should continue to prosper. However, it is clear that Liechtenstein's handful of banks are no longer going to be allowed to divide up the business among themselves. Not before time, they are starting to face some serious competition.



Liechtenstein Landesbank, the largest and oldest bank, has been quick to take advantage of new fund management rules Fergus Wilson

Bank blossoms under Royal

Prince Philipp, 50, chairman of Liechtenstein Global Trust, is the second of the three princely brothers (the third is top diplomat Nikolaus).

He was brought in to run the royal family's most valuable asset in 1990 after Christen Norgren, the family's financial adviser, was dismissed following accusations of insider trading. Although Prince Philipp's international banking experience was limited to stints at Hambros and Banque Rothschild, LGT has blossomed under his command. He has more than trebled its earnings, doubled equity to SFr1.2bn, and, with the $300m acquisition of a New York money manager, has established it as a global fund management business. The only complaint is the shortage of independent directors on the LGT board. But the Prince is confident that in the unlikely event that LGT hit big trouble, the Swiss National Bank would stand behind it if the royal family's estimated SFr5bn fortune proved insufficient.

TRUST COMPANIES

At the centre of the financial web

Discretion is still the key, but the emphasis of business is changing

Liechtenstein's banks are the most visible sign of the country's prosperous financial services industry. They publish annual reports and talk to the press. They are quoted on the stock exchange and their share prices are a good barometer of how well they are doing.

By contrast, it is far more difficult to get an accurate reading on the performance of the network of lawyers and trust companies which provide the services underpinning Liechtenstein's role as a tax haven. The best are highly professional, but standards vary considerably. Security is tight and gaining entry to some law firms and trust companies is as difficult as entering one of the world's major central banks. It all adds to the impression that these types of businesses have something to hide and thrive on the absence of public scrutiny.

At the centre of Liechtenstein's financial web lie a group of lawyers with names such as Batliner, Frommelt, Marxer and Ritter. Discreet office blocks with names such as Dr.Dr. Batliner & Partner and Burohaus Dr Marxer, clustered round the centre of Vaduz, are the powerhouse of Liechtenstein's legal business. There are lots more lawyers in Liechtenstein, but the members of the *rechtsanwaltsliste* constitute the cream of the legal profession. Not much goes on in Liechtenstein that does not involve a rechtsanwalt.

Some are part-time MPs and some sit as judges. Dr Heinz Frommelt, 37, the new minister of justice, has his own law firm. Most of them have close ties to local trust companies. Dr Peter Ritter is chairman of Präsidial Anstalt, Dr Peter Marxer heads Confida and Dr Guido Meier is a top executive with Allgemeines Treuunternehmen as well as sitting on the board of VP Bank.

Twenty years ago, there were only 20 lawyers on the *rechtsanwaltsliste*. Today there are close to 70 and the numbers look set to increase further as lawyers from the European Union countries, particularly Austria, start asserting their right to practise law in Liechtenstein.

The second pillar of the financial services industry are the 200 or so *treuhandgesellschaften* (trust companies). Präsidial and Allgemeines Treuunternehmen, were set up over 60 years ago, and Confida was set up in the 1960s.

They are among the best known names and their main objective is to provide trustee services and set up and manage companies for international clients. Utmost importance is attached to anonymity.

They advise on the best structure and organisation of the legal entity and choice of domicile as well as offering tax and inheritance planning. Clients can range from multinational companies which want to protect patents and trademarks to wealthy individuals who want to safeguard their fortunes for future generations. Foreign clients using Liechtenstein pay virtually no tax except for a 1 per cent per annum capital tax. For foundations with taxable assets of over SFr10m the rate drops to ½ per cent.

Liechtenstein is home to more than 70,000 of these types of personal and corporate vehicles, but it appears that the growth rate is tailing off. Liechtenstein is no longer in the business of mass-producing off-the-shelf letter box companies. That sort of business has gravitated to places like the British Virgin Islands partly because they can do it more cheaply but also because Liechtenstein is becoming more tightly regulated.

Liechtenstein is concentrating more on added value corporate work. However, it also faces competition from centres such as the British Channel Islands which offer different types of trust structures which are more appealing to certain types of international investor. As a result Liechtenstein is having to look for new sources of business to support a financial services sector which produces the biggest part of the government's income.

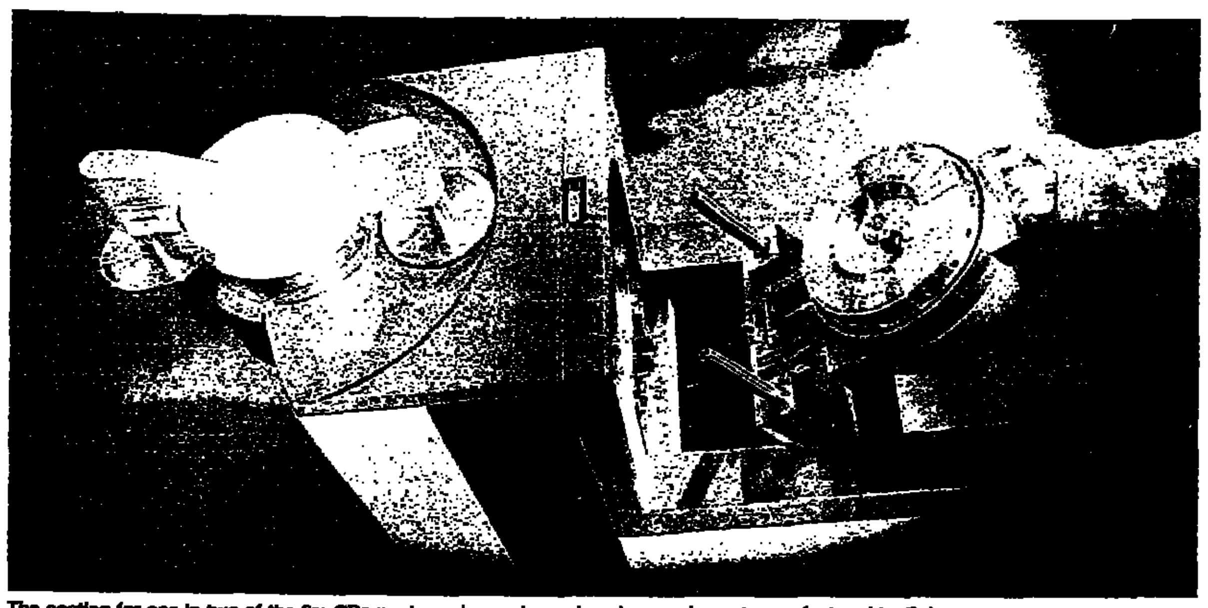
One area is insurance. Liechtenstein has never been big enough to justify its own insurance companies, although the same could be said for its banks and this has not stopped them from flourishing.

However, in 1996 a new insurance act came into force and Liechtenstein is now touting for business as a centre for captive insurers. It has already attracted a company specialising in insuring works of art and another offering third party liability insurance in inland waterways transport. It is hoping that its location inside the European Economic Area will enable it to capture business from other offshore centres.

INDUSTRY

Strong entrepreneurial spirit

The sector is the principality's biggest employer, and jobs are still being created



The coating for one in two of the 6m CDs made each year is produced on equipment manufactured by Balzers

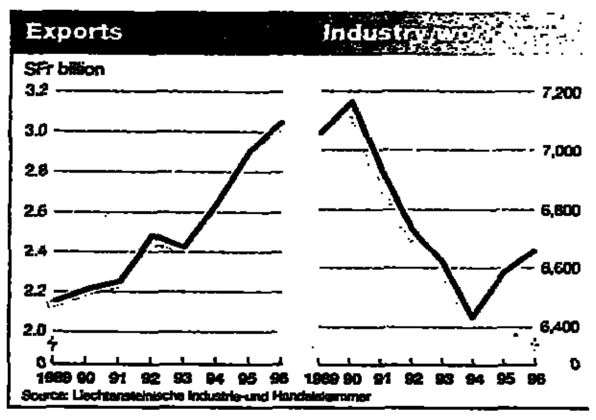
A casual visitor to Vaduz might be forgiven for thinking that the Liechtenstein economy is built on postage stamps, banks and trust companies. The centre of the main town is dominated by the high-security headquarters of law firms, banks and trust companies with strange sounding names which fuel the popular image of Liechtenstein as just another tax-haven with a nice line in pretty postage stamps.

However, drive a few minutes north of Vaduz and one comes to the village of Schaan (population 5,106), home of Hilti, a family-controlled firm in the international construction services industry. Its annual revenues are roughly four times the size of the Liechtenstein government's revenues and its worldwide workforce of 11,600 is almost the equivalent of Liechtenstein's entire domestic workforce.

Not far from Hilti is the headquarters of Hilcona, a major frozen food manufacturer which sells to Swiss supermarket chains such as Migros, and Ivoclar-Vivadent, another family controlled company, which is a world leader in dental medical technology. Hilti, Hilcona and Ivoclar are all multi-nationals, but each employs more people inside Liechtenstein than the government.

Take a trip south of Vaduz and the picture is much the same. The first factory one comes to on the outskirts of Vaduz is Hovalwerk, which is short for Heizapparate Ospelt Vaduz Liechtenstein. It was founded in 1932 by Gustav Ospelt who built kitchen stoves. It has grown into a leader in European central heating systems and the world's largest manufacturer of aluminium-plate type heat exchangers.

Carry on down the same road and one comes across Balzers, Liechtenstein's second biggest employer and its most successful high-tech company. It was founded just over 50 years ago by Max Auwärter, a German scientist, Liechtenstein's Prince Franz Josef II, and Emil Bührle, a Swiss financier. Auwärter's vacuum technology factory in Germany had been destroyed and Prince Franz Josef was keen to attract industry to his extremely poor kingdom.



The result is that Balzers, now owned by Oerlikon-Bührle, a Swiss conglomerate, has grown into one of the world's largest vacuum and surface technology companies. Its products range from protective coatings to prolong the life of specialist tools, to thin film components and coatings for the electro-optical industry. It is a big player in the information technology industry and is at the leading edge in providing equipment and thin film technology for new data storage formats such as the digital versatile disk, successor to the CD-ROM. The coating on one in two of the 6bn CDs produced every year, is based on Balzers' technology.

The industrial sector is the biggest employer in Liechtenstein and the proportion of the labour force working in industry is much higher than in neighbouring countries. Although a country of fewer than 30,000 people can never be considered a formidable industrial power, the growth of Liechtenstein industry has been one of the country's great success stories.

From the very beginning, Liechtenstein industry has had to compete on the international stage, unlike the country's banks, trust companies and law firms which have been highly protected. The country's low taxes have helped, but the success of businesses owes a lot to industrial pioneers such as Martin and Toni Hilti, and the late Gustav Ospelt, who presided over the Liechtenstein chamber of industry and commerce for more than two decades.

In 1950, Liechtenstein industrial exports totalled SFr6m. Today, the figure is more than SFr3bn and accounts for the bulk of Liechtenstein's industrial output. A glance at the statistics underlines the strength of the industrial sector. Exports have risen in all but one of the last eight years and, after a dip in employment in the early 1990s, Liechtenstein's industrial workforce has been growing for the last couple of years. Switzerland, once Liechtenstein's most important market, has been overtaken by Germany and the the US.

Although the growth of Liechtenstein's industrial sector has slowed from the heady rates of the 1960s and 1970s, the fact that industrial jobs are still being created in Liechtenstein, whereas they are being shed in neighbouring countries, is a testament to Liechtenstein's healthy industrial climate.

Liechtenstein history

1699 Prince Johann Adam I of Liechtenstein purchases the Lordship of Schellenberg which is heavily in debt.

1719 Emperor Karl VI raises the two areas of Vaduz and Schellenberg to the status of the Imperial Principality of Liechtenstein.

1815 Liechtenstein becomes a member of the German Confederation.

1852 Customs treaty with Austria.

1862 The Constitution; the Landtag becomes the legislative body. Founding of the Liechtenstein Savings Bank (now the Liechtenstein National Bank).

1866 Last deployment of the Liechtenstein military contingent. Dissolution of the army in 1868.

1912 Liechtenstein issues its own postage stamps.

1919 Ending of the customs treaty with Austria.

1920 Postal treaty with Switzerland

1924 Customs treaty with Switzerland

1938 Accession of Prince Franz Josef II

1989 Prince Franz Josef II dies on November 13 - Prince Hans Adam II takes over the government.

1990 Liechtenstein becomes the 160th member of the United Nations.

1995 Liechtenstein joins the EEA.

PROFILE **Pius Baschera**

Selling power

Mr Pius Baschera, 50, has a tough job. He is the first outsider to be chief executive of Hilti, the flagship of Liechtenstein's post-war industrial revolution, and since he took over nearly three years ago Hilti's operating profits have been on the slide. Were it not for the profits from its financial dealings, Hilti would not have been able to continue to increase its net income and dividend over the last couple of years.

The recession in the construction industries of Germany, Switzerland and Austria, three of Hilti's biggest markets, combined with the strength of the Swiss franc, have taken a toll on Hilti, which makes fastening systems for the construction industry. The family-controlled group's non-voting shares fell by 8 per cent last year and have substantially under-performed the Swiss stock market in 1997. Has the Hilti success run its course?

The answer from Mr Baschera is a clear no. "We are not in the high growth electronics business but we are outgrowing the construction market consistently." Meanwhile, the earnings from the group's liquid funds accumulated over the last few years are treated as a second contributor to profits and have to produce a reasonable return.

"There is no question that we have to produce good profits but we have to look at the medium and long term," says Mr Baschera. Despite this long-term approach, Hilti faces tough competition from two types of rivals. The best known are companies like Bosch, Black & Decker, Hitachi, Makita and Atlas Copco. They compete in the professional electric power tool market but also sell to the DIY market. The other big competitor is Würth, a private German company, which is not a manufacturer but operates a big sales force.

Hilti has never been tempted to enter the DIY market and yet it maintains one of the biggest direct sales forces in the industry. This grew up because of the need to train customers to use its systems. "From the beginning our aim has been to produce more value for customers rather than just a tool they could buy anywhere," says Mr Baschera.

Hilti regards its sales force as its biggest advantage over its competitors. With close to 5,000 salesmen making 10 to 15 calls a day, it knows what is going on in the world's construction markets and gets a lot of feedback, which helps focus its R&D.

One example of how this has been translated into new products is a drill introduced three years ago with an integrated dust remover. The absence of any real competition shows it was not so easy to imitate.

Nevertheless, the cost of maintaining Hilti's sales force, plus the need to expand into emerging markets, is keeping Hilti's operating margins lower than those of some competitors. Some analysts have questioned the advantage of having such a vertically integrated business where Hilti does everything from inventing and producing to selling its products.

However, Hilti has a well tested international management team and an owner with a long-term time horizon. It has been heavily involved in all the big international construction projects such as the Channel tunnel, the Hong Kong airport and the Storebaelt bridge and tunnel link in Scandinavia. There should not be one big construction site around the globe where Hilti is not involved, says Mr Baschera. "If it was, I would have big problems with that."

Quiet success

Michael Hilti, 50, chairman of Hilti, Liechtenstein's biggest company, is the country's most international businessman. He sits on the boards of Switzerland's Winterthur insurance group and Credit Suisse First Boston, the investment bank.

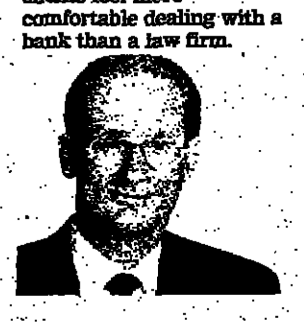
He trained to be a banker with Chase Manhattan in London before joining the family firm in 1975. In 1990 he became chief executive and took over as chairman in 1994 when Martin Hilti, his father, turned 80. He has yet to show the same entrepreneurial flair as his father, or Toni Hilti, an uncle who founded Hilcona, a frozen food company. He has delegated day-to-day responsibility for running the family firm to Pius Baschera, Hilti's chief executive (see profile, right) and shuns the limelight. Family motto: "Better to flourish in the shade, than to be hung out to dry in the sunlight."

Business move

Peter Marxer, 64, is probably Liechtenstein's best connected lawyer. He inherited his father's law firm which was established in 1925. Like many Liechtenstein lawyers he has been a part-time MP, and his partner, Dr Walter Kieber, used to be prime minister. They are both Princely judicial councillors.

Although they are members of the Liechtenstein legal establishment, this has not prevented them from expanding into areas once considered out of bounds. Today, the Burohaus Dr Marxer, across the road from the Liechtenstein government, controls a growing business empire which includes Confida, one of the biggest local trust companies, and Centrum Bank, the youngest of Liechtenstein's five banks.

Hard to believe, but some clients feel more comfortable dealing with a bank than a law firm.



Hardliner opens deep divisions

Wolfgang Haas, 48, Bishop of Chur, is Liechtenstein's most controversial export. Liechtenstein is a conservative and deeply Catholic country and Bishop Haas, who is a Liechtensteiner and officiates at the royal family's weddings, is on the right of the Catholic church.

His appointment as Bishop of Chur, whose parish extends from Liechtenstein to Zurich, has led to deep divisions among Switzerland's catholic community because of his hardline attitude towards the role of women and other social issues.

The Swiss are supposed to be able to elect their own bishops and many liberal members of the Catholic church resent the Vatican's refusal to remove Bishop Haas. Given his age, Bishop Haas could be around for another 20 years.

However, the recent departure of Monsignor Karl-Josef Rauber, the Papal ambassador to Berne, is seen by some as a sign that Bishop Haas's days in Chur may be numbered. If true, he can still be assured of a warm welcome in Liechtenstein where he is the national bishop.

POLITICS

Emergence of an opposition

The long-standing coalition has ended and both parties welcome the change

Politics is a growing business in Liechtenstein. Until 1989 there were only 15 members of parliament and two political parties which had ruled the country in a cosy coalition since 1938. The prime minister was generally drawn from the ranks of the country's lawyers and most of his ministers worked part time.

Today, Liechtenstein has 25 MPs, three main political parties and the prime minister is no longer able to double up as minister of foreign affairs and minister of justice.

Membership of the European Economic Area has meant that Liechtenstein's five ministers have had to become more professional, and this year's break-up of the government coalition, probably the longest surviving in recent European history, suggests that Liechtenstein politics is starting to be buffeted by the same electoral stresses as its much larger neighbours.

Liechtenstein is a relatively young democracy. Women did not get the vote until 1984 and until the 1920s, the Prince of Liechtenstein, who lived in Vienna, appointed his own governor to run a country of 8,000 people.

However, the Liechtenstein economy collapsed at the end of the first world war and Prince John II was forced to provide substantial financial aid to prevent his subjects from starving.

Despite this generosity, there was a growing call for a "Liechtenstein for the Liechtensteiners" and this was the background in which Liechtenstein's two main political parties were spawned.

The oldest is the People's party, the predecessor of the current Vaterlädische Union (VU), or Patriotic Union. It drew its early members from workers who had been employed in Switzerland on a seasonal basis and had learnt about the Swiss system of direct democracy and trade union rights. Hence the VU party's tag as the "reds".

Its founding goals were greater rights for the people and closer economic ties with Switzerland. The Fortschrittliche Bürgerpartei (FBP), or Progressive Citizen's party, was founded in 1918 and recruited its members at the outset mainly from the farming and middle classes. It has always been known as the "black" party. The two parties even have their own weekly newspapers with the Liechtensteiner Vaterland supporting the VU party and the Liechtensteiner Volksblatt backing the FBP.

By 1921, Liechtenstein had a new constitution which drew heavily on the Swiss model with the right to challenge government decisions by popular referendum and propose new legislation through initiatives. Considerable political power was delegated to the country's 11 communes.

The head of state had to be a Liechtensteiner and the parliament was to be elected by the people. The 67-year-old customs treaty with Austria was abandoned and in 1923 Liechtenstein signed a customs treaty with Switzerland. The following year the Swiss franc replaced the Austrian currency as Liechtenstein's official currency.

The next brief period of feverish political activity in Liechtenstein was marked by German troops marching into neighbouring Austria and the approach of the second world war. In 1938 Prince Franz Josef II, father of the present ruling Prince, took up permanent residence in the castle overlooking Vaduz and encouraged the two political parties to stop squabbling and unite in a coalition government.

The government coalition continued until March 1997, long after the threat of German occupation had become only a memory. The two parties had become virtually indistinguishable and it was often joked that the only difference was that one party was Catholic, conservative and monarchical, and the other was monarchical, Catholic and conservative. Members of the VU like to regard themselves as more akin to the US Democratic party while the FBP is closer in philosophy to the US Republicans.

In Germany, the VU would be on the left wing of the Christian Democratic Union, whilst the FBP would be on the right.

Despite the absence of obvious policy differences, this year's break-up of the government coalition was not a great surprise. The FBP, which provided Josef Ospelt, Liechtenstein's first prime minister in 1922, had been the majority party between 1928 and 1970. Since then, it has held power only twice – and the second time for only seven months. Its share of the vote has fallen from over 50 per cent 20 years ago, to 39 per cent.

Mr Norbert Seeger, a lawyer who heads the FBP, says that every four years his party seemed to be losing between one and two percentage points at the election. "We could no longer be distinguished from the VU," says Mr Seeger. In addition, the FBP's position has been undermined by political infighting. In 1993, it won the biggest share of the vote in the general elections but within a few months the FBP had lost confidence in its own prime minister, Mr Markus Büchel, and tried to remove him.

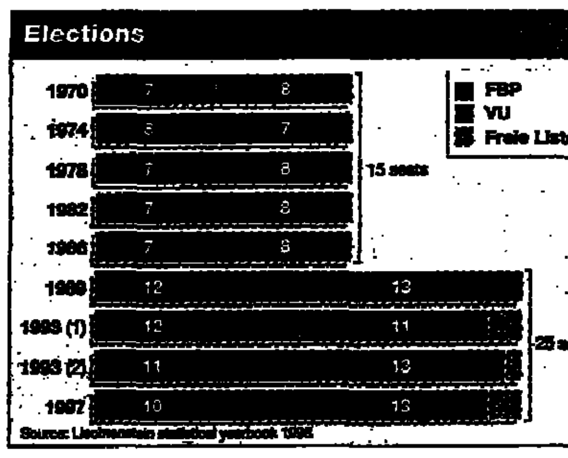
The result was a second general election in 1993 and the VU party regained its majority. The coalition government soldiered on for another four years but in last February's general elections, the FBP lost another seat and the Freie Liste, an ecology-based party, won two seats. As a result the VU has 13 MPs and the FBP is down to 10 MPs. There was increasing evidence that its younger voters were defecting to the Freie List.

So for the first time in 60 years, Liechtenstein now has a formal opposition party and all five government ministers are drawn from the same side.

If this state of affairs had existed five years ago, Liechtenstein's negotiations for membership of the European Economic Area might well have proved more difficult. However, both parties appear to welcome the change.

It will make it easier for the FBP to set out its position on major issues and counter attempts by the Freie Liste to establish itself as the only real opposition party. Liechtenstein's tradition of direct democracy has always offered an outlet for people opposed to the coalition government. However, there is a danger in a small state like Liechtenstein that the top jobs and top contracts will be carved up along party lines.

Prince Hans-Adam, who, in some respects, has occasionally had to act in lieu of a formal opposition party, also welcomes the move. "It will add to the transparency in Liechtenstein's political life and increase the importance of Parliament," says the Prince.



Test of youth

Mario Frick, 32, prime minister, is one of the world's youngest leaders. He was only 28 when he was catapulted into power by a vote of no confidence in his predecessor and is still a good deal younger than the rest of his cabinet.

He studied law at St Gall and was a government lawyer before winning the top job. After a shaky start, he seems to have found his feet and appears to enjoy the perks, which include being photographed with President Bill Clinton at the UN's 50th birthday party in New York.

However, his real test is yet to come – standing up to the Prince in the forthcoming debate over the constitutional role of the monarchy. If the going gets too tough he could always follow the exit route of most of his predecessors and join a wealthy local law firm.

TOURISM

In search of quality

Art is seen as the answer to falling visitor numbers, to supplement hiking and skiing

Berthold Konrad, director of Liechtenstein's tourist office since 1971, has one of the toughest jobs in the principality. Unlike the rest of Liechtenstein's industries, tourism is feeling the recession and membership of the European Economic Area is not the solution.

The 1950s and 1960s were the heyday for Liechtenstein tourism, with numbers of visitors doubling roughly every decade. However, visitors peaked in 1961, at 85,282, and since then numbers have been falling. In 1996, arrivals fell by 5.2 per cent, to 56,751 – the lowest number since 1965. The number of overnight stays, a key figure for the hotel industry, fell by 6.5 per cent to 119,264 and is now 38 per cent below its 1972 peak.

The weakness in Liechtenstein's tourist industry is not immediately visible. The number of tourist buses thronging the centre of Vaduz, seems as large as ever, and relative to its population, Liechtenstein still has a lot of visitors: the number of foreign visitors to Liechtenstein is nearly three times the size of its population, whereas in Switzerland, a popular tourist destination, it is less than twice.

It has been said that there are three kinds of Liechtenstein tourists: the TT, the BB and the QV. The "Teutonic Transits"(TT), from neighbouring countries, tend to be passing through on their way south. The "Bullet Bus"(BB) tourists, not all of whom are Japanese, drop in for half an hour just so that they can visit one more European country.

However, it is the Quality Visitor (QV), which interests Berthold Konrad. "If you want to really see Liechtenstein it will take you three weeks," says Konrad. Some 40 per cent of Liechtenstein's tourists come for the winter sports concentrated on the Malbun ski area, 10 miles outside Vaduz. It is a handy-sized ski resort at 1,600m with six ski-lifts and 12 miles of downhill runs. Past visitors have included members of Britain's royal family.

For summer visitors, Liechtenstein's main attraction are outdoors. There are one or two good restaurants in Vaduz, such as the Real, named after the owner's family, or the Torkel, owned by the Prince, and the Park-Hotel Sonnenhof. But if visitors are not interested in outdoor attractions, such as the 400km of hiking trails, there is a limit to what Liechtenstein has to offer.

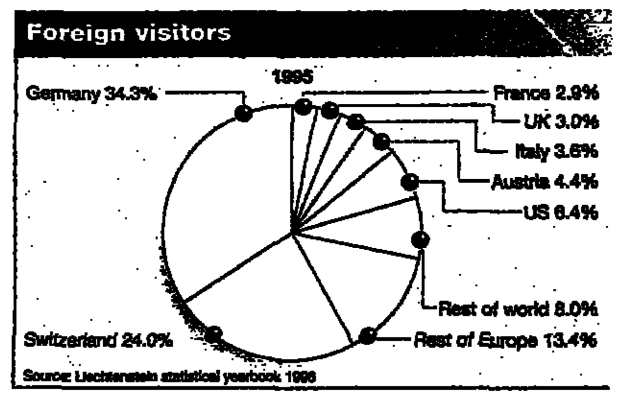
Liechtenstein has no outposts of big hotel chains (which could be a plus point) and has never developed into a spa resort like Bad Ragaz, a few miles down the road in Switzerland. However, it does have a number of other attractions which remain sadly underused. It has two impressive castles in Vaduz and Balzers, which are both closed to the public. The Liechtenstein National Museum, which was hit by an earthquake, is closed until further notice, and the Liechtenstein State Art Collection's exhibition of five centuries of Italian art from the Prince's collection, has just finished. The Liechtenstein Postal Museum has been closed for several months of renovation but should reopen.

Nevertheless, there are signs that Liechtenstein may be about to create a tourist attraction to tempt the quality visitors that Mr Konrad is keen to attract. Liechtenstein probably has the biggest per capita collection of art works in the world but until now has never had a proper art museum. That could be about to change.

A group of businessmen, led by Mr Michael Hilti, chairman of the country's biggest company, has pledged SFr30m to finance an art museum to house the state art collection, exhibit parts of the Prince's collection, and attract outside exhibitions. It will be built in the centre of Vaduz on the car park now occupied by the tourist buses and the aim is to open it by 2000.

Vaduz is a pleasant enough village. But when it is busy, it resembles a giant parking lot. Under the proposals, the main street will become a traffic free precinct. The museum will be a place to meet people, hold seminars, and will hopefully reinvigorate the centre of Vaduz. The idea is that it will attract the sort of upmarket visitor who might also be a potential client for Liechtenstein's private banks. There is even talk that international collectors might be encouraged to bring their collections to Liechtenstein to take advantage of its tax laws.

The proposed museum's success would be enhanced if the ruling Prince agreed to lend it the best parts of his family's art collection, one of the most valuable in the world. However, the new museum is a much smaller version of what was originally planned and it is still possible that the Prince could decide to build a rival museum to show his own collection. It should not be forgotten that a general election had to be called in 1989 after the two main political parties fell out over plans to build a museum to house the Prince's art collection.



FINANCIAL TIMES
COMPANIES & MARKETS
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IN BRIEF

Benetton set for sports expansion

Benetton Group, the quoted Italian clothing group, is set to expand in the sportswear and equipment business while freeing up the family holding company to pursue other interests. Page 19

Icahn gains control of Marvel
Mr Carl Icahn, the US corporate raider, has finally wrested control of Marvel Entertainment from rival Mr Ronald Perelman, though the threat of further legal action has left a question over his ultimate success in running the famous comic book company. Page 19

Metalsrussia seeks stock market listing
Hong Kong-based Metalsrussia, a company that supplies steel from the former Soviet Union to customers in south-east Asia is seeking a listing on the London stock market in a move likely to value the group in excess of $200m. Page 18

Share price set for Eni
The Italian Treasury has set a maximum price of L9,325 for its L10,000bn ($5.9bn) flotation of a third tranche of shares in Eni, the state-controlled oil and gas group. The offer, involving 1bn Eni shares and an additional 150m "greenshoe", or oversubscription, option opens today and closes on Friday. Page 19

First Choice may cool holiday hopes
First Choice, the UK's third largest tour operator, is likely this week to dampen hopes of a sharp rise in holiday sales as a result of building society windfalls. Page 18

UCI plans growth in Europe
United Cinemas International (UCI), the cinema chain owned by Seagram and Viacom, the North American entertainment groups, plans to expand into Italy and Poland, and to launch high-tech IMAX cinemas in Europe. Page 19

Aluminium row to resurface
The row about the 6 per cent tariff on primary aluminium imports charged by European Union countries is almost certain to bubble up again today at the second annual aluminium conference organised by the Financial Times and the CRU International consultancy. Page 22

Delta revives Zimplats plans
Delta Gold, the Australian mining group, is reviving plans to spin off its Zimplats arm, which has platinum interests in Zimbabwe, and list it on the London Stock Exchange. Page 18

Demand continues for dollar assets
International dollar bond issues hit record levels last week for the second time in a month, with investors showing a clear preference for the greenback. Strong demand for dollar assets prompted borrowers to issue almost $15bn in new bonds. Page 26

Cellnet's Force costs rise
Cellnet, the UK's second largest mobile operator, set aside £25m ($41.25m) last year to cover the rising cost of problems with its sophisticated new billing system. Overall costs for the system, Force, which is a year late, have risen from £70m to £95m. Page 18

Lonrho likely to test patience again
The patience of Lonrho shareholders is likely to be tested again when the company today reports results for the six months to March 31. Investors anxious about Lonrho's overdue sale of the Princess resort hotels may have to be content with a disappointing set of figures. Page 24

Complication for Glaxo drug
The US Food and Drug Administration has introduced a complication in the race to launch a generic version of Glaxo Wellcome's best-selling ulcer drug, Zantac, after Glaxo's US patent expires on July 25. Page 18

China Everbright in HK asset swap
China Everbright, the acquisitive business arm of China's State Council, is to take a 20 per cent stake in Theme International, the Hong Kong-based clothing retailer, as part of an asset swap designed to bolster its retail operations. Page 19

Cinema chains discuss mega merger
Toronto-based Cineplex Odeon and Loews Theatres of the US are discussing a merger that would create one of the world's biggest cinema chains. Page 19

Companies in this issue

Market Statistics http://www.FT.com

Anglo-French power group creates new roles for national managers

GEC Alsthom reorganises

By Stefan Wagstyl, Industrial Editor

GEC Alsthom, the Anglo-French power and transport engineering group, is decentralising its management in its biggest organisational change since it was founded eight years ago.

The company, a joint venture between GEC of the UK and France's Alcatel Alsthom, has created a senior post of country manager in the 40 countries most important to its business.

These new managers have been asked to co-ordinate the group's activities in national markets. In particular they will deal with top customers, such as government organisations.

The new structure is being superimposed on GEC Alsthom's existing system, which involves five divisions, covering its main businesses of power generation, power transmission, transport, industrial equipment and marine equipment.

The change is a response to criticisms by GEC Alsthom executives and customers that the group was too centralised in its Paris head office.

The original division-oriented structure was established to try to ensure that managers from GEC and Alcatel Alsthom, the two parent companies, worked together within each business.

But GEC Alsthom executives have concluded that they now need a more decentralised and flexible organisation to cope with the company's fast-changing markets.

In particular, privatisation and deregulation in the power and transport markets is creating more potential new customers.

Also, the proportion of sales coming from outside France and the UK has risen sharply from 53 per cent in 1989-90 to 66 per cent.

The expansion last year of the German business through the acquisition of the power transmission and distribution business of AEG, accelerated this process.

Mr Claude Darmon, managing director in charge of operations, said in an interview: "We are decentralising because exports are growing, because our operations are expanding geographically and because the number of customers [in each country] is growing rapidly."

The new country managers – called 'presidents' in the most significant markets and 'resident directors' elsewhere – would plan strategy, including possible acquisitions, act as the company's public face, and co-ordinate activities which could be brought together, such as supply purchasing, Mr Darmon said.

Mr Darmon said decision making would still be concentrated with business divisions, and country managers would not be directly responsible for running operations.

However, further decentralisation could come in the future.

"The world is becoming more and more complex and we have to adjust so that we can react more quickly," he said.

However, GEC Alsthom does not plan to decentralise as far as one of its main rivals, ABB, the Swiss-Swedish engineering group, which operates on a matrix in which managers report both to country heads and divisional chiefs.

US bank to set up European corporate finance arm

By John Gapper, Banking Editor

Oppenheimer & Co, the privately owned US investment bank, is setting up a corporate finance arm in Europe in an effort to capture business from small technology companies seeking to list or merge.

The move by Oppenheimer, which has traded and sold shares and bonds of US companies to European investors for 25 years, comes amid growing interest from specialist US investment banks in expanding their services into Europe.

Oppenheimer is trying to gain from the greater willingness of US institutions to invest in high-growth technology companies. The bank, founded in 1950, is among the leading underwriters of technology shares in the US.

Other US investment banks that specialise in analysing and advising technology companies are represented in London. They include Alex Brown, Hambrecht & Quist and Robertson Stephens, which has just been bought by Bank of America.

Israel already has a large number of technology ventures. Oppenheimer has been among the leading investment banks – with Lehman Brothers – to offer the shares of Israeli technology companies in US capital markets.

European investment banks have anticipated a growing demand from small- and medium-sized companies for advisory services in countries such as Germany when growing companies come to the public markets to seek fresh equity.

But the move by Oppenheimer and others indicates that smaller specialist US investment banks may seek to compete in the technology sector in the same way that big US investment have made inroads into the broader European market.

Mr Adrian Merryman, a senior vice-president of Oppenheimer, said that entrepreneurs could potentially gain a higher price for companies by offering shares to US investors as well as European institutions or venture capitalists.

Mr Merryman said Oppenheimer expected to concentrate on a broad range of sectors within the technology industry.

China tightens control of 'red chip' sector

By John Ridding in Hong Kong

China has announced new guidelines for international share offerings which will tighten controls over the injection of state assets into red chips. These are mainland-controlled businesses which have surged on the Hong Kong stock market this year.

Investment bankers in Hong Kong said the rules marked an attempt to take the speculative steam out of the overheated red chip sector, rather than the reversal of a policy that has provided a steady stream of funds for mainland enterprises.

"I don't think their intention is to pull the plug on the red chips," said Mr John Mulcahy, managing director of W.I. Carr in Hong Kong.

But brokers said the announcement, which came earlier than expected, could trigger volatility in the Hong Kong market in the final week before the transfer of sovereignty to China. The rules were announced late on Friday after a record daily rise and a record close on the Hang Seng index.

Shares in red chip companies have risen sharply this year. Investors have seized on their diversified portfolios and the prospect of asset injections as the most attractive access to China's economy.

Last week, China Everbright IHD-Pacific saw its share price rise 40 per cent in one day on news that it would acquire a stake in a mainland bank.

Under the guidelines, mainland companies seeking to list overseas or to transfer assets *to Hong Kong* subsidiaries will need approval from several ministries and market regulators.

The CSRC, China's financial sector regulator, will review proposals while the securities commission of the state council, China's cabinet, will decide on approval.

Chinese companies seeking to list abroad must have their assets inside China for more than three years, while a statement carried by the state news agency also suggested that an annual quota for listings and asset injections might be established.

"Many organisations have caused negative influence by transferring assets for overseas listings without approval," the statement said, warning of tough punishment should the rules be breached.

Mr Richard Lo, head of China Research at BZW Asia, said the rules partly represented a formalisation of existing practices. "When investment banks arrange a listing for a Chinese company it is usual to get approval from provincial or central government," he said. "This just makes it black and white."

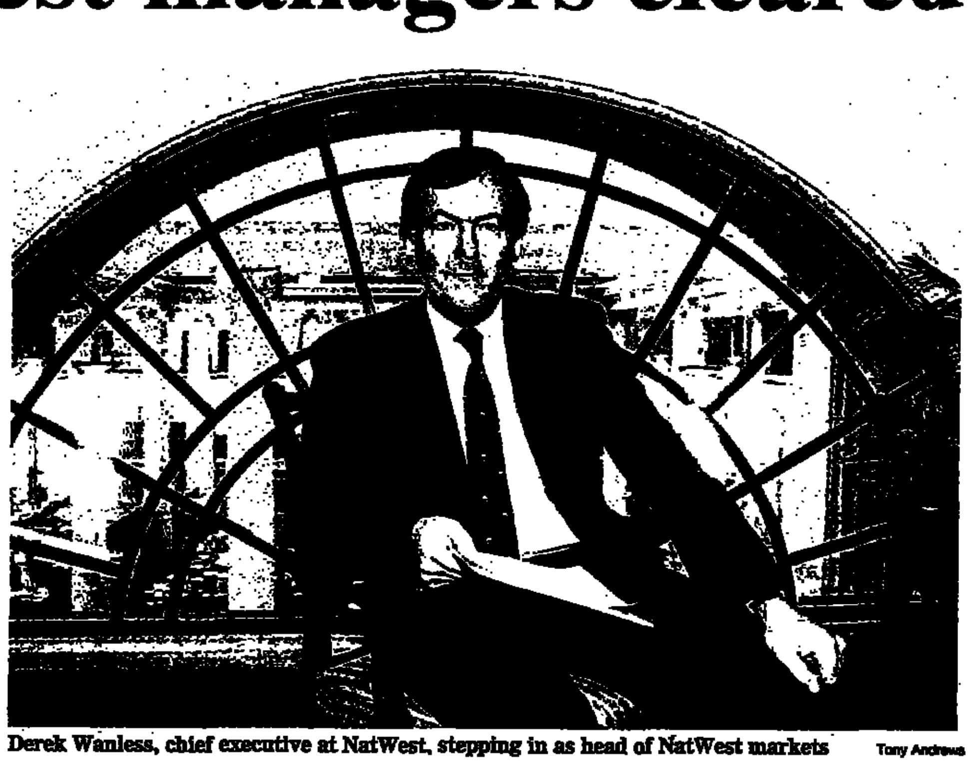
Others warned Beijing's tough words might lead to a hiatus in red chip issues or asset injections. But they saw positive signs in the move. One broker said: "This is a signal that they want an orderly market, even if it means risking a fall in the Hang Seng as they are about to resume sovereignty. That is encouraging for international investors."

Hong Kong hero, Page 24

NatWest managers cleared

Inquiry finds no collusion in options loss

By John Gapper, Banking Editor



Derek Wanless, chief executive at NatWest, stepping in as head of NatWest markets Tony Andrews

An inquiry into the mispricing of interest rate options that caused National Westminster Bank a £77m ($127m) loss earlier this year has cleared senior managers of collusion with a junior trader alleged to have been responsible.

Five managers who supervised Mr Kyriaco Papouis, an options trader, were suspended in March and may leave the bank over the affair. The inquiry by Coopers & Lybrand, the accountancy firm, has found that they failed to supervise him adequately but were not involved in active collusion with him.

The options mispricing, which led to the resignation last week of Mr Martin Owen as chief executive of NatWest Markets, the bank's investment banking arm, has also caused controversy over NatWest's expansion into investment banking.

The results of the inquiry are expected to be published by NatWest at the end of this week or the start of next week. It will announce the action it has taken to strengthen its internal risk controls.

Mr Derek Wanless, NatWest's chief executive, has taken over as temporary chief executive of NatWest Markets while NatWest searches for a replacement for Mr Owen. The bank is expected to appoint an outsider to strengthen management.

NatWest has suspended Mr Phil Wise, chief administrative officer, Mr Jean François Nguyen, head of debt derivatives, Mr Christophe Lanson, head of interest rate risk management, Mr Ian Gaskell, head of swaps trading in Europe, and Mr Neil Dodgson, global head of options.

The internal inquiry is thought to have concluded that Mr Papouis mispriced interest rate options over a prolonged period by making inaccurate estimates of volatility, which were supported by brokers with whom he dealt.

Separately, Barclays yesterday dismissed as "speculation" a report that suggested it was considering a bid for NatWest, or an approach to suggest a merger. NatWest said it had not received any approaches from outside parties.

A merger between any of the Big Four clearing banks has been thought unlikely to be approved on competition grounds.

NatWest and Barclays both have a big share of the small and medium-sized business banking market. There has been concern that there is already an insufficient level of competition for small business customers.

Some investment bankers have suggested that Barclays and NatWest should merge their investment banking arms, NatWest Markets and BZW, to compete with US investment banks.

Top Italian bank shaken as key executive quits

Mediobanca's difficulties deepen with Braggiotti's decision to go

By Paul Betts in Milan

Mediobanca, Italy's most influential merchant bank, has been thrown into turmoil by the abrupt decision of Mr Gerardo Braggiotti, one of its most respected senior executives, to step down.

Mr Braggiotti, who held the title of central director, has long been tipped as a future Mediobanca chief executive.

The resignation of the 45-year-old banker comes at a difficult time for Mediobanca. The bank has been struggling to adapt to rapidly changing Italian and international financial market conditions and has suffered a series of recent highly publicised setbacks.

Mediobanca has so far not officially confirmed Mr Braggiotti's decision to step down. But Italian newspapers yesterday widely reported the resignation of Mediobanca's star as a virtual "fait accompli", although there might be last-ditch attempts to persuade him to reconsider.

Mr Braggiotti appears to have fallen out over strategy with Mr Vicenzo Maranghi, chief executive, who is backed by Mr Enrico Cuccia, Mediobanca's 89-year-old honorary chairman.

Mr Cuccia, who has led the bank since its foundation four decades ago, continues to exercise considerable influence over its affairs.

Some reports yesterday suggested Mr Braggiotti had received an offer from Lazard Frères in Paris, a rival merchant bank but one with links to Mediobanca. Pearson, which owns the Financial Times, has a stake in the Lazard merchant banks.

Mr Braggiotti's departure is bound to complicate further Mediobanca's internal succession problems as well as its efforts to adapt to increasing competition. Its traditional dominance of the Italian market is being challenged by foreign investment banks and other Italian institutions.

Mr Maurizio Romiti, another former Mediobanca central director, recently left the bank to head HPI, the Italian holding company which recently failed to merge with the Marzotto textiles and clothing group.

The collapse of this deal was seen as a severe blow to Mediobanca, which orchestrated it. This was followed a few weeks later by its failure to seal a marriage between Banca Commerciale Italiana and Cariplo, Italy's largest savings bank, which opted instead to negotiate a strategic partnership with Banco Ambrosiano Veneto.

Mr Braggiotti is the son of a former BCI chairman now living in Monte Carlo after being convicted in the "clean hands" corruption scandals of 1992.

Before stepping down, Mr Braggiotti and Mr Romiti – the son of Mr Cesare Romiti, Fiat chairman – were widely seen as leading the new generation at Mediobanca.

Reuters action hurting online providers

By Nicholas Denton

Maid and Reed Elsevier of the UK are struggling to fill gaps in their online business information libraries after a move by larger rival Reuters to deny them use of its key news database.

London-based Reuters, the world's largest market data provider and news agency, has already ceased updating news stories in Profound and Lexis-Nexis, the online services run by Maid and Reed Elsevier.

By October, articles from Reuters' Textline, a database which aggregates contributions from about 350 leading newspapers, newsletters and other publications, will be removed entirely.

Reuters, which is seeking to translate its dominance in news gathering into leadership in the growing market in online business information, is also restricting access to its own news wires.

Maid will carry no Reuters news stories at all after refusing the cut-down version of Reuters' news service now being offered to competitors. It would have included no more than 10 international business stories a day.

Reuters has attracted particular criticism by demanding services acknowledge onscreen that they carry a narrower selection of Reuters wire articles than the news agency's own online service.

The restrictions on access to Reuters content come ahead of the relaunch next month of Reuters Business Briefing, which is in direct competition with Maid's Profound and Reed's Lexis-Nexis.

Reuters continues to supply Textline to groups with which it barters articles such as Pearson of the UK, owner of the Financial Times and the FT Profile online library, and Knight-Ridder of the US.

"We are using our content and the content we aggregate in order to promote our business information products," said Reuters. "We continue to provide Textline where we have reciprocal arrangements with other information services."

It is understood that Maid, which lost access to several UK newspapers when Reuters pulled Textline, will next week announce agreements to carry directly The Times, The Sunday Times and BBC World Monitoring Service.

Maid, which has less bargaining power because it is a distributor of content rather than an owner, said: "It is for others to decide whether Reuters are abusing a global monopolistic position."

Reuters, which began as a news agency 150 years ago, has traditionally been a wholesaler of news, willing to leave distribution to newspapers, online services and web sites.

But the growth of the business information market has led Reuters, along with Pearson and Dow Jones, owner of the Wall Street Journal, to promote their own services by progressively denying proprietary content to rivals.

First Choice poised to damp bonanza hopes

By Scheherazade Daneshkhu, Leisure Industries Correspondent

First Choice, the UK's third largest tour operator, is likely this week to damp hopes of a sharp rise in holiday sales as a result of building society windfalls.

Mr Peter Long, group managing director, is expected to warn that although the year will turn out to be good, it will not be the bonanza that some have assumed.

The travel industry expected to be one of the main beneficiaries of the £20bn windfall from the demutualisation of building societies. But at a recent aviation conference in London, Mr Long said: "People have got the cash from windfall money and are deciding what to do with it. I don't see any signs that they are spending it on a summer holiday."

Airtours, the second largest tour operator, said there had been increased holiday sales, but "it's very difficult to say whether they are tied to the windfall money or not".

Sales of summer holidays were flat in May compared to the same time last year and there has been heavy discounting of holidays departing in June.

Travel agents said the price weakness was caused by a late increase in capacity which had made up to 4 per cent more June holidays available compared with last year.

Mr Ed Sims, marketing director at Unijet, which has 4 per cent of the holiday market, said that discounts on June holidays were on average £25 deeper across the industry than last year.

However, sales of holidays in the high season were going well. "At the moment we do not expect any discounting in July and August because there is virtually no availability in the school holiday period. But a lot of money will be lost in June," he said.

Sales of summer holidays were 12 per cent higher in April compared to last year; the industry expects 9m holidays to be sold by the end of the summer – up 6 per cent on last year.

First Choice is expected to report first-half pre-tax losses to April 30 of between £21m and £24m, with an improved UK performance offset by increased losses in Canada.

Lydia van der Meer

Peter Long: people are deciding what to do with windfalls

Delta revives Zimplats plans

By Kenneth Gooding, Mining Correspondent

Delta Gold, the Australian mining group, is reviving plans to spin off its Zimplats subsidiary, which has platinum interests in Zimbabwe, and float it on the London Stock Exchange.

The idea was first mooted in 1995, but Delta's institutional shareholders in Australia objected, saying it was too early in the development of the Hartley project in Zimbabwe, the biggest platinum mine outside South Africa, in which Delta has a 33 per cent interest.

Now institutions are suggesting the time is right to consider the idea again, said Mr Peter Vanderspuy, Delta's chairman. When it reaches full production at the end of 1998, Hartley will account for about 3 per cent of world platinum output. It will produce 150,000 troy ounces of platinum, 110,000 ounces of palladium as well as other metals.

If the flotation goes ahead, Zimplats will join a growing list of substantial mining companies seeking a London listing. Randgold Resources, the international mining and exploration arm of Randgold of South Africa, and Billiton, the base metals business to be demerged from Gencor, another South African group, are expected to start trading in London next month.

Timing of any Zimplats London flotation will depend on whether Broken Hill Proprietary, Australia's biggest company, decides to keep its 67 per cent stake in Hartley. BHP is currently undergoing a fundamental review of its global businesses.

Hartley has been an unhappy experience for BHP. The capital cost jumped from the $225m in the feasibility study to $289m (£175m) and, because the project has slipped 18 months behind schedule, BHP is having to fund $80m of net operating costs before development of Hartley is completed.

Analysts suggest that BHP is likely to sell Hartley and that the project is worth between $250m and $300m

Delta has pre-emptive rights to buy BHP's stake and Mr Vanderspuy said his company would almost certainly use a London float to raise the necessary cash.

Metalsrussia for market with $200m tag

By Christopher Price

A company which supplies steel from the former Soviet Union to customers in south-east Asia is seeking a listing on the London stock market in a move likely to value the group in excess of $200m (£121m).

Metalsrussia, based in Hong Kong, is seeking to raise $50m which will be used to modernise and upgrade a steel furnace plant the group recently purchased in Ukraine. The group believes the development of the furnace will eventually lead to a significant rise in profits.

Mr Mohammad Zahoor, chairman, who founded the group in Pakistan in 1991, will see his 49 per cent share valued at some $75m if the float is successful.

Other shareholders include the Viriyaprapaikit family, who are involved in the Thai steel industry, with 41 per cent. The remainder is held by four Pakistani businessmen. The two largest shareholdings will dilute to 37 per cent and 30 per cent respectively after the float. None of the existing shareholders are selling shares.

Metalsrussia made after-tax profits of $35.9m, a 28 per cent increase, on sales of $601m in 1996. However, operating profits fell from $38m to $35m due to difficult market conditions, chiefly a sharp fall in steel prices.

Mr Zahoor said the group's success was founded on its strong business connections both in the former Soviet Union and south-east Asia. "We have the reputation, the performance, the delivery record and the quality."

The group retains the services of three steel mills in former Soviet Union which Mr Zahoor said had records of producing consistent quality steel. Orders to the mills were given only when the steel had already been sold on. "There is very little risk for us being left with steel we cannot sell," said Mr Zahoor.

In addition, most of the group's transactions are carried out in dollars to minimise any dangers from the uncertain political and economic situations in the former Soviet Union. However, Mr Zahoor, who is based in Moscow, said business conditions were improving in the region.

Williams de Broë is sponsor and broker to the float.

BG deputy chairman on look out for another job

By Jane Martinson

Mr Philip Rogerson, deputy chairman of BG, has confirmed that he is looking for another job after leading the company's team in the Monopolies and Mergers Commission inquiry which ended last week.

The MMC report into TransCo, the regulated gas pipeline business of the old British Gas, endorsed the central demands of Ofgas, the industry regulator and set tough new price controls.

Mr Rogerson said he had no regrets about going to the MMC after rejecting the proposals put forward by Ofgas last year. "The issues were too big and too important not to go," he said. The group gained "significant extra resources" from the inquiry, which amounted to "well in excess of £500m".

Mr Rogerson, who was notably absent when BG publicly accepted the report last week, had called the original Ofgas proposals "one of the biggest smash and grab raids ever". Following the MMC report, he called the result "reasonable", though "obviously we would have liked a better result".

The biggest disappointment was that the MMC "decided to change its mind" over asset value and depreciation, he said. He admitted that the "reality" of the regulatory process was that the company had to grin and bear the MMC decision.

Ms Clare Spottiswoode, the regulator, repeatedly mentioned the improved relations with the new executive team at BG. But Mr Rogerson denied that the disagreement had ever been personal. "As far as I was concerned it was never a personal battle. I don't know whether that was the case for Clare Spottiswoode."

He said his departure had been well signposted.

Mr Rogerson, who has been with the group for five years, said he was "open to offers" about his next job but would like a company chairmanship. He said the new company had to be "interesting", not necessarily of FTSE 100 size.

Depressed outlook for paper prices

By Michael Peel

World paper industry prices nosedived last year after enjoying a record year in 1995, according to Pira International, the paper and packaging research centre. Pira also predicted prices would continue to be depressed until the end of the century.

The most striking example of the worldwide downward trend in prices last year was North America, where wood pulp prices fell by 27 per cent, and recovered paper prices dropped by 62 per cent. In 1995 pulp rose by 58 per cent and recovered paper by 77 per cent.

Pira said the drop in prices was due in large part to an increase of millions of tonnes in south-east Asian pulp and paper capacity.

Overall global wood pulp capacity rose by about 3.7m tonnes, while demand increased by only 200,000 tonnes. Paper and board capacity expanded by 11m tonnes against a heightened demand of 5.2m tonnes.

Last year the Food and Agriculture Organisation's global capacity survey predicted an increase in developing countries between 1995 and 1998 of 27.3 per cent for wood pulp and 20.3 per cent for wood and board.

Pira said 1997 and 1998 would remain "doubtful" years for prices, during which the industry would "be lucky to remain on an even keel".

NEWS DIGEST

Delcam heads for Aim float

Delcam, a computer software group, is planning to float on the Alternative Investment Market in a move likely to value the Birmingham-based company at some £15m.

The group supplies software and services for the design and manufacture of complex shapes. Pre-tax profits last year were £1.03m on sales of £13.6m. In 1995 the group reported profits of £625,000 – adjusted for a £225,000 investment in opening overseas offices – on sales of £10.5m.

Delcam was a management buy-out, involving some 70 employees, from Delta in 1989 for £2m. After the float, directors will hold 36 per cent of the shares, employees 49 per cent and institutional investors the remainder.

Mr Hugh Humphreys, managing director, whose 13 per cent stake will be worth more than £1m, said the market for Delcam's particular area of computer-aided design was growing by 14 per cent a year. The company was expanding more quickly than its rivals because products were kept competitive through updating and pricing, while its international sales network was continuing to grow.

The company currently has 60 sales offices in 40 countries. Proceeds from the float will be invested in increasing overseas marketing and in product development.

Arthur Andersen is the nominated adviser. Charterhouse Tilney is the nominated broker.

● Landround, a supplier of travel-based promotions, is seeking to float on Aim. Pre-tax profits have risen from £71,000 to £362,000 in the past three years, while sales have more than doubled to £1m. The market capitalisation is likely to be about £5m. Henry Ansbacher is nominated adviser, with WH Ireland the nominated broker.

Christopher Price

Goshawk in £35m offer

Goshawk Insurance Holdings, the Aim-listed Lloyd's investor, has made a recommended final offer for Matheson Lloyd's Investment Trust, valuing the business at about £35m.

It said it already owned 9.6 per cent of Matheson and had formal acceptances from shareholders with a further 40.16 per cent. Another shareholder, with 6.9 per cent, had said it expected to accept. The deal aimed to create a specialist Lloyd's insurance group, managing more than £115m annual premium capacity.

Goshawk is offering Matheson shareholders 18 new Goshawk shares for every 17 Matheson shares. This was equivalent to 134p a Matheson share or a near-13 per cent premium to the stock's closing price last Thursday. Matheson floated at 100p in 1994. Shares in Goshawk, which floated at 110p last November, closed at 126½p on Thursday, the day before the offer was announced.

Goshawk is also offering 30p cash for every Matheson warrant and a partial cash alternative for the stock, equivalent to 124.4p a Matheson share. The cash alternative is limited to £15.2m. Goshawk, which includes the managing agent of Syndicate 102 and the recently-formed Syndicate 2021, is making the offer through Raphael Zorn Hemsley, its broker.

Virginia Marsh

Cellnet's Force costs rise

Cellnet, the UK's second largest mobile operator, set aside £25m last year to cover the rising cost of problems with its sophisticated new billing system.

Overall costs for the system, Force, which is a year late, have risen from £70m to £95m. Difficulties with the project are believed to have contributed to the unexpected departure earlier this year of Mr Howard Ford, Cellnet's former managing director. The project has now been rescheduled and is expected to come on stream next year.

The company turned over £997m in the year to March 31, an 8.5 per cent improvement on last year but operating profits slipped 1.8 per cent to £227m after the charge. The average revenue per customer fell 12.3 per cent to £343 a year chiefly due to a fall in spending from £220 a year to £185 a year among low spending customers.

Average acquisition costs, including premiums paid to dealers and retailers, rose 6.8 per cent to £173 a customer.

Alan Cane

Gartmore wins tender

Yorkshire-Tyne Tees Television has appointed Gartmore, the investment management wing of National Westminster Bank, to run a £43m bond portfolio. The mandate is a specialist brief focusing on UK fixed income securities but with an option to invest a tenth of the portfolio in international bonds.

Gartmore won the job in a competitive tender involving several other companies. From October 1994 it managed the bond portfolio of Tyne Tees Television. This has now been combined with the bond portfolio of Yorkshire Television, which bought Tyne Tees for £30m in 1992.

Gartmore, which manages £56bn, has lost several clients this year, including Unilever, for which it invested £1bn in assets.

Jonathan Guthrie

Formula One advisers

Dresdner Kleinwort Benson is believed to have been appointed to advise up to four of the 10 Formula One teams. The teams, which include Williams and McLaren, are negotiating with Mr Bernie Ecclestone who intends to float his Formula One Holdings company.

Mr Ecclestone's family owns FOH, valued at up to £1.8bn, but the 10 teams share close to half its revenue, estimated at £200m this year. Salomon Brothers, the US investment bank advising FOH – which markets the television rights to the sport – had initially hoped to float it next month. Sources said yesterday the flotation would almost certainly be delayed until the autumn. One analyst said Kleinwort's appointment should make the negotiations easier. So far they had been on an ad hoc rather than professional basis.

Virginia Marsh

Complication for Glaxo drug

The US Food and Drug Administration has introduced a complication in the race to launch a generic version of Glaxo Wellcome's best-selling ulcer drug, Zantac, after Glaxo's US patent expires on July 25.

The FDA has given Genpharm, a subsidiary of Merck of Germany, exclusive rights to sell ranitidine (generic Zantac) in the US until August 29 – whereas Glaxo had agreed that Novopharm of Canada could sell ranitidine from July 10.

Glaxo said it could not evaluate the effect of the FDA's move on Zantac sales. "Because of pending patent infringement litigation, and litigation regarding the FDA decision on exclusivity, uncertainty exists regarding the date a generic product might become available."

Clive Cookson

HIT launches rights issue

HIT Entertainment, the television distribution company, is launching a 2-for-7 rights issue at 270p to raise £8.1m and has applied for a transfer from Aim to the main market.

The company has developed a catalogue of television programmes mainly for the children's and natural history markets. Mr Peter Orton, its founder, said the proceeds would "enable the company to evolve into a multimedia rights owning business."

In the year to April 1, HIT had pre-tax profits of £1.01m (£530,000) on turnover of £11m (£9.4m). Flextech, the broadcasting company, said it would be taking advantage of the rights issue to realise its 23 per cent stake in HIT, gaining £7.5m after an initial investment of £625,000 in 1990. Brokers are Henderson Crosthwaite.

COMPANIES AND FINANCE

Benetton set to expand in sportswear

By Paul Betts in Milan

Benetton Group, the quoted Italian clothing group, is set to expand in the sportswear and equipment business while freeing up the family holding company to pursue other interests.

Benetton executives revealed that the group is considering the purchase of Benetton Sportsystem, a subsidiary of Edizione, the holding company.

The asset swap will enable Edizione to pursue its diversification strategy by bidding for a 5 per cent stake, worth about L200bn ($118m), in Autostrade, the state-controlled motorway group due to be privatised this year.

Mr Luciano Benetton, founder and chairman of the clothing group, and Mr Carlo Giraldi, managing director, also disclosed in interviews that the clothing company had teamed up with Deutsche Bank to launch its first credit card on the Italian market, with the aim of expanding the service elsewhere in Europe.

A group of four investment banks, including IMI of Italy, Salomon Brothers, SBC Warburg and Morgan Stanley, are advising Benetton on the asset swap. Pricing is a sensitive issue in view of the poor track record of many Italian companies in dealing with minority shareholders.

Although a final decision on the deal has not yet been taken, Mr Giraldi said the clothing company had examined several possible acquisitions, but felt Benetton Sportsystem, which has sales of L1,300bn, offered the most attractive prospects.

Benetton has been seeking to take advantage of its strong financial position to expand through acquisition.

After reporting record net profits of L246bn on sales of L2,871bn in 1996, the group has eliminated its net debt and expects further improvement this year.

"Revenues are growing 5 to 8 per cent a year and income by 10 to 11 per cent a year as a result of improvements in productivity and cost controls," said Mr Giraldi.

Benetton has also just launched a L500bn five-year floating-rate note, in what appears to be a move in preparation for the Sportsystem acquisition. Sportsystem owns several brands, including Prince tennis racquets, Rollerblade skates, Kastle skis and Nordica ski boots, but only 10 per cent of its revenues derive from sportswear.

If the acquisition goes ahead, Benetton plans to expand Sportsystem's clothing activities, reinforcing its strategy of focusing on the clothing, textiles and sports goods sectors. The deal would lift sales at the quoted company to L4,300bn a year.

Murdoch on horns of a dilemma

A new TV guide from Microsoft leaves News Corp chief facing a difficult choice

Earlier this month, representatives of three computer companies – Compaq, Intel and Microsoft – went to the office of Mr Rupert Murdoch, chairman and chief executive of News Corporation, to demonstrate one of their latest projects.

It was a top-of-the range personal computer – "Full of Intel chips", says Mr Murdoch – complete with a TV-style 36-inch high-definition screen and the ability to manipulate the picture.

On this system will be run an electronic guide to television programmes provided by Mr Bill Gates, the founder of Microsoft. Mr Murdoch fears that Microsoft's presentation of the guide will highlight its own programmes.

"I am very worried about what Gates is doing. He is trying to place himself between us and our customers and I don't think there is a legal way to stop him," says Mr Murdoch, more uncertain about the future of the media than he was even six months ago.

Before long he has answer a more fundamental, more global question – should he throw in his lot with the titans of the computer industry who are threatening to invade the traditional work of television?

The alternative is to stay loyal to those who say the television set is not the same as a computer, even though its functions can be enhanced.

Rupert Murdoch: 'Gates is trying to place himself between us and our customers' Reuter

The dilemma Mr Murdoch now faces is whether to try to reach agreement with Mr Gates on how News Corp channels are treated in the new electronic programme guide or to join completely different partners trying to create a more intelligent television set which would be cheaper than the computer industry model.

The News Corp chairman has set up a working group to try to get to grips with the issue. "We don't want Gates to get control of our picture – that's the real thing, but it may be possible to work out some deal," said Mr Murdoch.

The issue is of particular concern in the US, where the Australian-American has just been forced to give up his attempts to create his own digital satellite platform, ASkyB.

Instead of having his own system, Mr Murdoch had to roll his satellite hopes into PrimeStar, the existing satellite television group owned by a group of cable companies, and be happy to concentrate on being a software provider to the all-important US market.

"I was very depressed by it, but it was a matter of discretion over valour," he said, not trying to disguise that he has suffered a setback.

Explanations of the end of the American satellite dream have tended to centre on bust-ups with his partner Mr Charlie Ergen, the founder of EchoStar, the satellite company. EchoStar is suing News Corp for $5bn for breach of contract.

Mr Murdoch argues that two more fundamental issues lay behind the unravelling of ASkyB: investor resistance on the grounds of excessive risk and the fact that the project would fail to get many good cable channels to go on the satellite.

"We were going to be in opposition to the whole cable industry. We really had to choose: are we a software supplier or a distributor. The choice was obviously to say we were going to be a software supplier," says Mr Murdoch.

The rest of News Corp's plans are intact. The group's conventional US television stations, which broadcast to 40 per cent of the US, "will be capable of making $800m a year pre-tax".

The Fox Network, Mr Murdoch forecasts, should this year become number two for the first time among the under-50s audience.

Other deals have continued to flow. One is the plan to buy the LA Dodgers, the baseball team – "They are the number one team in Japan," says Murdoch – and another is the likely purchase of International Family Entertainment, which owns The Family Channel.

But the one that brings the biggest smile to Rupert Murdoch's face is Heritage Media, a company few outside the US have heard of. It distributes discount coupons from machines in supermarkets, and owns a direct mail company and number of small television and radio stations.

News Corp is paying about $700m for it, but he can get some of that back by selling the broadcasting operations. "Heritage is a sweetheart," says Mr Murdoch.

Raymond Snoddy

UCI plans growth in Europe

By Alice Rawsthorn

United Cinemas International (UCI), the cinema chain owned by Seagram and Viacom, the North American entertainment groups, plans to expand into Italy and Poland, and to launch high-tech IMAX cinemas in Europe.

Mr Ray Smith, vice-president, described Italy and Poland as "key market-places" for UCI in Europe. Its investment there forms part of a general strategy of expansion in Europe, where the cinema sector is much less mature than in the US.

The group has secured a £280m ($463m) facility to finance its expansion, roughly £200m of which will be invested in Europe.

Italy is the next target for expansion. UCI hopes soon to start construction at a site in Genoa, with the aim of opening a multiplex there in 1999. It is now in talks to secure four other Italian sites, including ones in Rome and Milan.

UCI also has plans to develop a cinema chain in Poland, after forming a joint venture this spring with ITI, the Polish media group.

In the longer term, UCI plans to launch a small European chain of IMAX cinemas, which use advanced projection equipment to screen specially produced films with enhanced sound and picture quality.

INTERNATIONAL NEWS DIGEST

China Everbright in HK asset swap

China Everbright, the acquisitive business arm of China's State Council, is to take a 20 per cent stake in Theme International, the Hong Kong-based clothing retailer, as part of an asset swap designed to bolster its retail operations.

Under the terms of a deal announced yesterday, China Everbright IHD-Pacific, one of the group's three Hong Kong-listed subsidiaries, will sell a 56 per cent stake in its retail division to Theme for HK$336m (US$43.4m) in cash and new shares. Theme will issue new shares to China Everbright IHD-Pacific worth HK$387.5m and will receive an additional cash payment of HK$51.5m.

The deal follows last week's confirmation that China Everbright IHD-Pacific would buy a 20 per cent stake in Everbright Bank for HK$2.4bn. It comes amid continued speculation that the group might buy a stake in Giordano, the Hong Kong fashion retailer. Earlier this year, China Everbright's parent company bought a 7.7 per cent stake in Hongkong Telecom, one of the territory's biggest companies. *John Ridding, Hong Kong*

Cineplex, Loews in talks

Toronto-based Cineplex Odeon and Loews Theatres of the US are discussing a merger that would create one of the world's biggest cinema chains. A deal would enable Sony, the Japanese consumer electronics group, to take wholly-controlled Loews public, while improving both groups' competitiveness against Georgia-based Carmike Cinemas, the biggest US chain.

Loews operates 900 screens at 135 cinema complexes. Cineplex, a publicly traded company 42 per cent held by California's Universal Studios, has almost 1,600 screens at about 315 locations.

Cineplex warned in response to reports of the merger talks that "no assurances can be given" that a deal would be concluded. Among hurdles to be overcome is how the combined group would handle releases of films produced by two rival studios: Universal and Sony-controlled Columbia Pictures.

Cineplex, which has had a volatile history and remains burdened by relatively heavy debt, has been seeking a partner for some time to help finance an ambitious expansion programme. A planned merger with Cinemark USA, a large Dallas-based chain, was aborted two years ago. *Bernard Simon, Toronto*

Share price set for Eni

The Italian Treasury has set a maximum price of L9,325 for its L10,000bn ($5.9bn) flotation of a third tranche of shares in Eni, the state-controlled oil and gas group. The offer, involving 1bn Eni shares and an additional 150m "greenshoe", or oversubscription, option opens today and closes on Friday.

Eni shares closed at L9,400 on Friday ahead of the Treasury's announcement on Saturday. The final price will be the lower of the maximum price and the market closing price on Friday and will include a 3 per cent discount. Eni employees will be granted a larger discount, of 4 per cent. The Treasury expects strong demand for the latest Eni sale, which will see the government's stake fall by a further 14.4 per cent if the greenshoe option is exercised, to about 54.7 per cent. *Paul Betts, Milan*

Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com

Icahn wins control of Marvel

By Richard Waters in New York

Mr Carl Icahn, the US corporate raider, has finally wrested control of Marvel Entertainment from rival Mr Ronald Perelman.

However, the threat of further legal action has left a question over his ultimate success in running the famous comic book company.

The two well-known financiers have fought one of the most bitter takeover battles of the mid-1990s for control of the now-bankrupt company.

It started when an Icahn-led group bought a stake in Marvel bonds which were secured by Mr Perelman's 80 per cent equity stake in the company.

It was this equity holding that Mr Icahn finally succeeded in gaining control of last week, when US bankruptcy court judge Helen Balick lifted a block that had left Mr Perelman at the helm.

The move represents an embarrassing defeat for Mr Perelman, a New York financier whose businesses include Revlon, the cosmetics company. It is also a setback for Chase Manhattan, which leads a group of banks owed more than $700m. Chase had backed recovery plan for Marvel led by Mr Perelman.

A lawyer for Chase indicated in court on Friday, however, that the bank may try other ways to retake the initiative. As the bank which has provided finance since Marvel went into bankruptcy late last year, Chase may have the power to prevent Mr Icahn from bringing in his own partners to finance the group. Also, the company's bank financing ultimately gives creditors a right to all its assets.

Despite this, Mr Icahn, who was named chairman of Marvel, declared victory and promised to push ahead with his own financial restructuring of the company.

"The bondholders have been vindicated," he said. "This is a great day for Marvel Entertainment and for those of us who want to help this once great company emerge from Chapter 11 [bankruptcy protection] and make the most of its superb characters."

Mr Icahn's bid for control came after Mr Perelman proposed a restructuring of Marvel that would have greatly diluted the company's minority shareholders, while leaving himself in control.

The Icahn group, for its part, has proposed a recapitalisation that would allow all shareholders to take part in a rights issue by the company.

It has also said that it would repay banks in part by giving them control of a Fleer and Skybox, the trading cards and sticker company that Marvel bought in the early 1990s and which have been one of the main reasons behind its recent financial difficulties.

FINANCIAL TIMES

MARKETS THIS WEEK

Global Investor / Philip Coggan

Cassandra crossing the bull run

If there is such a thing as a universal investment mantra at the moment, it probably is the statement that "equities offer the best returns over the long term".

But it all depends on your starting date. As Milton Berg, who runs a hedge fund called Momentum US Enterprise, points out, there have been very long periods when the US stock market offered dismal returns.

In the 45 years from 1929 to 1974, for example, the Dow Jones Industrial Average rose by just 0.9 per cent a year, and in the 21 years from 1961 to 1982 the average annual gain was a mere 0.3 per cent.

The pattern of the last six-and-a-half years is an aberration in historical terms. Bull markets are traditionally shorter – the average length is about 19 months – and not so pronounced. The trebling in the Dow that has occurred in the current phase is the second strongest this century – lagging only the rally that ended in 1929.

Another way of looking at the long term is to examine the trend rate of total return from the Dow, which works out at 9.5 per cent a year. Returns obviously fluctuate above or below this line, for example spending a long period below trend from the 1930s to the early 1950s.

Since the mid-1980s returns have been consistently above the trend and, cumulatively, are further above trend than at any time since, you guessed it, 1929.

Now one can cite any number of valuation measures which show that the US market is overvalued – dividend yield, market capitalisation to gross domestic product, price-to-book – but they have one fatal flaw. Such signals have been flashing red for some time, but the US market has paid no attention and has kept heading higher.

Periods of overvaluation can last for some time, but the key, Mr Berg believes, is confidence. The best time to buy stocks this century for the long term investor was 1932, when despair was universal and Franklin Roosevelt proclaimed that "the only thing we have to fear is fear itself".

Over the subsequent 34 years, the total return a year from the Dow was just shy of 26 per cent.

Magazine indicators are a well-known contrary signal for investors; when a bull or bear market has been running long enough to justify a cover story, the turn is normally about to occur. Peter Lynch, the highly successful US fund manager, has said that when people at cocktail parties ignore him, the bottom of a bear market is near; when they ask him for share tips, it is a bull market; but when people start *giving* him tips, he knows the top is due.

Mr Berg cites, as his signal, the confidence of stock index futures traders. Last week, 81 per cent were bullish, the highest level of optimism in 11 years.

Furthermore, he says that trading volume tends to peak about five months before a market top; and New York Stock Exchange volume peaked in January.

He is unimpressed by weight of money arguments, which cite the flow of funds from institutions and retail investors (via mutual funds) as being a main support for the market. He believes it is the sheer scale of the market's rise which is prompting people to invest, rather than the other way round.

US household liquid assets are a record low as a percentage of total financial assets; the peak was reached back in 1975 when the market was about to rally.

All this leads Mr Berg to believe that the bull market will not last into 1998. He thinks the next bear market will be associated, as they often are, with a recession. Low inflation and interest rates, two of the factors which have been cited as driving the US bull market, have been of little help to Tokyo, which has been battling with deflation for the last seven years.

What would be the extent of a market fall? Mr Berg points out that the average bear market has seen the Dow decline by 31 per cent. But there have been nine falls of 40 per cent or more.

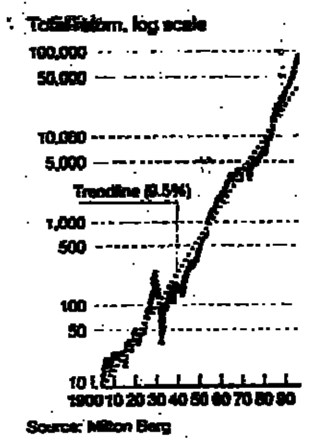
More importantly, from the point of view of the long term investor, he believes that, over the next decade or two, stocks will not be the best investment, as returns revert to the mean.

He is not that enthusiastic about bonds in the short term, however, and thinks that the best investment at the moment is cash.

It is always possible to find someone willing to play Cassandra at any stage of the cycle and Mr Berg, who in the past has worked at Oppenheimer and for Michael Steinhardt, is as likely to be wrong as the next man.

But there has been talk recently that non-US investors, bearish about Wall Street for much of the bull run, are finally giving up and piling into US stocks. If ever there was a sell signal, that ought to be it.

Dow Jones



Source: Milton Berg

Total return in local currency to 19/06/97

% change over period	US	Japan	Germany	France	Italy	UK
Cash						
Week	0.11	0.01	0.06	0.06	0.13	0.12
Month	0.48	0.05	0.26	0.26	0.57	0.53
Year	6.17	1.12	3.72	4.41	8.13	6.19
Bonds 3-5 year						
Week	0.82	0.31	-0.15	0.01	0.65	-0.37
Month	1.40	0.47	0.80	0.42	1.13	0.03
Year	8.29	5.14	8.94	9.57	16.17	8.07
Bonds 7-10 year						
Week	0.56	0.52	-0.38	0.06	0.78	-0.68
Month	2.11	0.92	0.62	0.53	1.31	-0.03
Year	10.15	9.11	13.08	13.77	24.17	12.88
Equities						
Week	1.8	0.6	1.2	-0.7	5.1	-1.9
Month	6.1	1.4	3.9	-1.4	5.7	0.4
Year	32.5	-8.4	43.6	30.1	17.9	27.3

Source: Cash & Bonds - Lehman Brothers. Equities-© FT/Extel Index Unit. The FT/S&P Actuaries World Indices are jointly owned by FT-SE International Limited, Goldman Sachs & Co., and Standard & Poor's.

COMPANY RESULTS DUE

Lonrho likely to again test patience

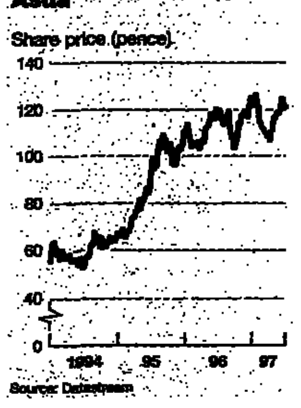
The patience of Lonrho shareholders is likely to be tested afresh when the UK company today reports results for the six months to March 31.

Investors are anxious for news of the company's overdue sale of its Princess resort hotels, and of its talks about a possible merger with JCI, South Africa's first black-controlled mining group. But they may have to be content with a disappointing set of figures. Brokers expect pre-tax profits in the range of £25m-£30m ($49.5m), compared with £58m for the same months of 1996, after revising their forecasts to take into account the company's profits warning in March.

■ BPB, Europe's biggest plasterboard producer, reveals full-year results on Thursday, and investors will be waiting to hear to what extent the strong pound has dented the bottom line. They will also want to hear how much the company has expanded its market share in the European market. It has said it expects market penetration to increase across the region as plasterboard usurps traditional brick, block and plaster for internal walls of commercial buildings and homes. Analysts expect the company to report pre-tax results for the year to March 31 of £162.3m, ($268m) up from £161.1m.

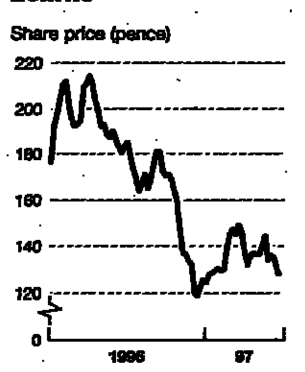
■ Berkeley Group, one of the UK's most successful housebuilders, reports full-year results on Thursday and comments from Mr Tony Pidgley, chief executive, on the state of growth in the housing market in the run-up to the general election will be keenly awaited. Last year the company announced record pre-tax profits for the third year running, and analysts expect a further record this time, up from £43.4m to about £63.2m ($104m).

Asda



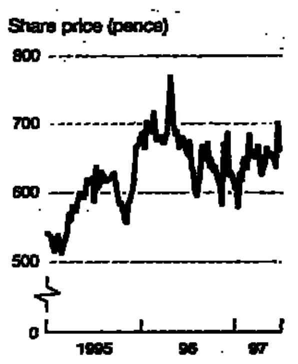
Source: Datastream

Lonrho



Source: Datastream

Great Universal Stores



Source: Datastream.

■ Great Universal Stores is expected to report pre-tax profits of about £565m ($932m), against £560m, when it announces final results on Thursday. Home shopping is expected to dominate the results with the UK group likely to show a continuing decline in this core business. Investors will be hoping for some indication from Lord Wolfson of Sunningdale, the chairman, that GUS has a grand plan to halt the erosion. However, given his past cautious comments, an immediate solution is unlikely.

■ First Choice, the UK's third largest package holiday company is expected to report first-half pre-tax losses to April 30 of between £21m and £24m ($39.6m) on Thursday. Improved UK profits are expected to be offset by greater losses than last year in Canada. Although the outlook for the summer is good, Mr Peter Long, group managing director, is likely to damp over-enthusiasm by being cautious about the impact of building society windfalls on package holiday sales.

■ Wessex Water rounds off the UK utility reporting season on Wednesday. The Bristol-based group is expected to announce an increase of some 10 per cent in annual pre-tax profits to between £146m and £151m ($249m). A share capital reconstruction earlier this year has made dividend forecasts more than usually diverse. Panmure Gordon, the house broker, is expecting a 15 per cent increase to 17.5p in a "steady as she goes" policy in the run-up to the Budget.

■ Asda's growth strategy is expected to come under scrutiny when it reports final results on Thursday. Investors may question the risks inherent in moving away from the traditional food on offer to non-food products such as clothing, and whether the UK group is focusing on boosting underlying sales densities in the core business. Forecasts are for profits of about £345m ($569m), against £302m, before exceptionals.

■ First Leisure will report on Tuesday its first set of results under Mr Michael Grade, who took over from former chief executive Mr John Conlan as executive chairman this month. The diversified UK leisure group is expected to report flat underlying profits of about £16.5m ($27m), against £16.4m, for the six months to April 30. Analysts are cautious as they await the results of the company's largest ever investment programme to come through.

■ Vendôme Luxury Group is expected to report on Tuesday annual pre-tax profits of SFr498m ($346.3m) against SFr471.6m previously. Analysts will be looking for a recovery from the Japanese region, as well as progress in western markets where a slow but steady consumer revival has been under way. Some 70 per cent of Vendôme shares are owned by Richemont, the Swiss holding company.

ATHENS STOCK EXCHANGE June 17th - June 20th 1997 GREECE

				GDP (USD bn) 97e	119.60
ASE INDEX	1500.37	P/E (after tax) 97e/98e	13.4/16.9	Per Capita Income (USD)	11,500
%Chg (31/12/96)	60.73	EPS GROWTH (%) 97e	20.9	Inflation Rate (% Y.O.Y, May '97)	5.40
Yearly High	1755.66	P/E 97e / EPS GROWTH (%) 97e	0.64	May 12 M T-Bill rate (%)	9.80
Yearly Low	932.38	P/CE 97e/98e	11.0/13.2	1-Month Athibor (%)	11.98
WEEKLY VOL. (USD m)	289.773	P/BV 97e/98e	3.1/3.5	GRD/US$	272.94
%Chg (Prev. Wk)	-21.07	Div. Yield (%) 97e/96e	4.5/3.4		
1 Y Wk Avg. (USD m)	238.35			A.S.E. Market Capitalisation - 20/6/97 (USD bn)	35.82
				IPOs & Rights Issues (in USD m) Jan 1 '97-June 20 '97	578.90

CONTRACTS & TENDERS

Agency for Motorway Construction and Operation

(the Agency)

acting by virtue of the Toll Motorway Act of October 27, 1994 (Dz. U. [Journal of Laws], No. 127, item 627 as amended) invites requests for prequalification for

the concession for the construction and operation of the motorway A-4 segment

Wrocław - Katowice

(187 km)

Limited liability companies as well as joint stock companies whose seat is in Poland, and whose share capital amounts to the equivalent of a minimum of 10 million ECU, may participate in the two stage tender process.

Interested persons can buy the "Specification of the Prequalification Conditions" and obtain supplementary information at the Agency's office, on working days, between 9.00 am and 4.00 pm, starting June 23, 1997.

To receive the Specification the amount of the 12,000.00 (twelve thousand) PLN +22% VAT has to be paid to the bank account of the Agency. This payment will be considered to have been received at the time when it is officially posted to the Agency's account by the bank.

Bank account of Agency for Motorway Construction & Operation:

WBK - ODDZIAL II - WARSZAWA,
ul. JASNA 12, 00-003 WARSZAWA
No 350033 - 22044 - 139 -11

Address:

Agency for Motorway Construction and Operation
00-928 Warszawa
ul. Chalubinskiego 4/6,
room 106, tel./fax. 830-05-84

The prequalification documentation, in Polish (five copies) and in English (one copy), with the description: *"Autostrada A-4, odcinek Wroclaw (wezel Bielany) - Katowice (wezel Murckowska - dokumentacja do kwalifikacji wstepnej"*, *(A-4 Motorway, section Wroclaw (Bielany Interchange) - Katowice (Murckowska interchange) - documentation for the prequalification)* on the cover, must be received by the Agency not later than September 19, 1997 at 3.00 pm, at the Agency's office, room 106. Documentation received after this date will not be accepted.

The Agency will notify all prequalification participants of the results of the Evaluation Committee's selection. The prequalification results will also be published on the notice-board at the Agency's office in Warsaw.

INTERNATIONAL EQUITIES By Andrew Fisher and Michael Lindemann

ProSieben beams to market

ProSieben, the German television broadcaster, is coming to market with a share issue that has aroused strong interest among investors and is expected to raise more than DM1bn.

Munich-based ProSieben will be the first German television company to issue shares to the public. Analysts' estimates of the price range from about DM60 to DM70 or more. The range will be set today when the bookbuilding process of assessing investor interest begins.

The company is issuing 17.5m preference shares; the voting stock will remain in the hands of Mr Thomas Kirch – son of Mr Leo Kirch, the film and television media magnate – who will hold 60 per cent and Rewe, the Cologne-based retailer.

The issue is being handled by a consortium led by BHF-Bank, Bayerische Hypotheken-und Wechsel-Bank and Salomon Brothers, the US investment bank. As well as Germany and the rest of Europe, shares will also be offered in the US to qualified institutional buyers.

The issue is large by German standards, although dwarfed by last November's DM20bn offering by Deutsche Telekom.

ProSieben is Germany's third largest commercial television broadcaster with a 13 per cent share of the market. Among viewers below 50, the most relevant group for advertisers, it was narrowly in first place. Its net advertising revenues were DM1.64bn, or 24 per cent of the total in German television.

Turnover last year rose 15 per cent to DM1.69bn, with pre-tax profits 59 per cent higher at DM178m, according to the prospectus. Net income showed a 76 per cent rise to DM169m. The sharp rise in profits partly reflects the costs incurred in 1995 of acquiring Kabel 1, the smaller of the company's two channels.

Analysts at Bayerische Vereinsbank said ProSieben's pre-tax return on turnover of more than 10 per cent made it Germany's most profitable television company. However, they pointed out that the close links with Mr Leo Kirch, whose film library provides much of ProSieben's programming, involves risks as well as opportunities. This view is shared by other analysts, especially in view of the financial strains put on Mr Kirch by his involvement in digital television.

Analysts have also suggested that ProSieben will be an attractive stock because advertising expenditure in Germany has been growing significantly faster than the economy as a whole. However, they point out that the stronger growth rates – particularly for television adverting, which increased 8.8 per cent last year – means that ProSieben will face strong competition from rival channels like RTL and SAT.1.

They also warn that because of the structure of the German economy television advertising is unlikely ever to represent as large a share of total advertising spending as it does elsewhere in Europe.

"Print-based advertising comprises over 70 per cent of total advertising in Germany, which puts it among the highest in Europe," said a Salomon Brothers report on ProSieben.

"We believe this is partly due to cultural and economic differences which exist between the regions of Germany. A national advertising medium can only make limited attempts to address such regional differences," the report said.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS	FRIDAY JUNE 20 1997								THURSDAY JUNE 19 1997					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	%chg since 31/12/96	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/96	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (76)	240.62	8.4	215.69	174.40	216.68	213.03	14.7	3.61	237.58	213.91	171.02	213.03	211.27	240.62	188.44	202.94
Austria (24)	193.52	1.9	173.46	140.26	174.26	174.15	14.6	1.91	194.04	174.71	139.68	173.99	173.90	200.52	174.70	186.86
Belgium (26)	251.52	10.5	225.45	182.30	226.49	221.75	24.3	3.22	251.62	226.55	181.13	225.61	220.84	255.87	206.70	207.68
Brazil (30)	289.33	52.5	259.35	209.70	260.54	574.01	58.2	1.27	291.82	262.75	210.07	261.66	577.66	292.72	170.26	172.79
Canada (112)	209.49	10.3	187.78	151.84	188.65	211.03	12.0	1.65	209.82	188.92	151.04	188.14	211.02	212.99	154.12	160.47
Denmark (32)	390.59	11.0	350.11	283.09	351.72	360.40	24.1	1.44	390.92	351.98	281.41	350.52	349.21	391.53	299.79	299.98
Finland (28)	274.61	11.8	246.15	199.03	247.28	299.05	25.9	1.84	275.88	248.40	198.59	247.37	299.05	279.84	186.67	193.22
France (90)	224.33	4.8	201.08	162.59	202.00	205.69	17.8	2.76	224.23	201.89	161.41	201.05	204.65	232.34	186.94	192.86
Germany (59)	218.33	14.9	195.70	158.24	196.60	196.60	29.2	1.44	217.46	195.80	156.54	194.99	194.99	218.33	168.70	169.59
Hong Kong (66)	536.36	5.8	480.78	388.74	482.99	533.16	5.9	2.83	513.76	462.57	369.83	460.66	510.63	536.36	407.55	428.71
Indonesia (27)	247.07	8.3	221.47	179.07	222.49	368.39	11.4	1.62	246.09	221.58	177.15	220.66	366.86	-	-	-
Ireland (17)	349.86	6.4	313.60	253.57	315.05	326.74	19.4	2.90	349.97	315.10	251.92	313.80	326.15	354.64	270.08	289.95
Italy (59)	95.95	14.9	86.00	69.54	86.40	121.36	28.0	2.08	95.01	85.54	68.39	85.19	119.82	96.32	73.26	83.46
Japan (485)	136.93	6.1	122.74	99.24	123.30	99.24	4.8	0.79	137.87	124.13	99.24	123.62	99.24	158.25	107.57	157.68
Malaysia (107)	525.30	-12.9	470.87	380.73	473.03	508.76	-13.3	1.34	527.08	474.57	379.42	472.60	510.66	660.85	510.10	562.40
Mexico (27)	1582.64	29.7	1418.63	1147.07	1425.16	13769.50	31.1	1.35	1563.62	1407.83	1125.57	1402.01	13517.62	1582.64	1110.35	1227.34
Netherland (19)	397.83	18.4	356.60	288.34	358.24	353.78	33.3	2.20	396.75	357.22	285.60	355.74	351.41	397.83	279.88	293.78
New Zealand (14)	93.13	1.5	83.48	67.50	83.86	72.16	4.6	3.96	92.89	83.64	66.87	83.29	71.77	95.80	79.04	79.50
Norway (41)	308.60	4.4	276.62	223.67	277.89	304.59	18.9	2.02	309.05	278.26	222.47	277.11	304.03	321.23	246.04	254.14
Philippines (22)	170.71	-16.2	153.02	123.73	153.72	224.42	-15.9	0.83	172.36	155.19	124.08	154.55	226.64	-	-	-
Singapore (42)	381.44	-9.2	341.91	276.46	343.48	250.89	-7.3	1.21	384.22	345.94	276.58	344.51	252.38	448.01	360.08	422.10
South Africa (44)	356.14	11.8	319.23	258.12	320.70	351.06	7.8	2.46	355.47	320.06	255.89	318.73	350.56	370.12	301.49	360.35
Spain (35)	261.37	18.9	234.26	189.44	235.36	289.30	33.6	2.28	259.09	233.28	186.51	232.31	285.54	262.42	171.91	181.28
Sweden (49)	469.06	11.2	420.45	339.97	422.39	537.54	26.1	1.92	470.89	423.98	338.97	422.22	537.54	470.89	334.35	358.87
Switzerland (35)	311.07	30.4	278.83	225.45	280.11	277.88	39.9	1.20	309.06	278.27	222.48	277.12	275.43	311.07	231.69	238.36
Thailand (43)	49.44	-48.4	44.32	35.83	44.52	49.95	-47.6	6.25	47.55	42.81	34.23	42.63	47.78	172.92	47.55	165.99
United Kingdom (212)	300.08	6.0	268.98	217.49	270.22	268.98	9.6	3.76	302.19	272.08	217.53	270.96	272.09	308.21	229.63	232.96
USA (647)	363.96	20.6	326.24	263.79	327.74	363.96	20.6	1.69	363.82	327.57	261.99	326.22	363.82	363.96	254.79	269.55
Americas (816)	332.73	20.6	298.25	241.16	299.62	280.32	20.6	1.89	332.64	299.50	239.45	298.26	280.20	332.73	233.09	248.25
Europe (726)	267.48	11.6	239.76	193.87	240.87	247.87	21.2	2.60	267.61	240.95	192.64	239.95	247.76	268.01	204.71	209.67
Nordic (150)	400.84	10.5	359.30	290.52	360.95	398.29	24.9	1.85	402.16	362.09	289.49	360.59	398.01	402.16	291.45	305.96
Pacific Basin (882)	155.62	4.7	139.50	112.79	140.14	113.90	4.0	1.25	155.67	140.16	112.06	139.58	113.37	170.85	127.18	170.23
Euro-Pacific (1608)	202.30	8.5	181.34	146.63	182.17	164.45	13.1	1.99	202.38	182.22	145.68	181.47	164.07	203.07	173.55	188.56
North America (759)	354.37	20.1	317.65	256.84	319.11	353.77	20.2	1.70	354.27	318.97	255.02	317.65	353.64	354.37	248.65	262.80
Europe Ex. UK (514)	243.33	15.0	218.11	176.36	219.12	230.07	28.4	1.96	242.58	218.40	174.61	217.49	228.47	243.33	185.65	191.76
Pacific Ex. Japan (397)	317.03	0.6	284.17	229.77	285.48	278.50	2.4	2.68	310.64	279.69	223.61	278.53	273.15	320.65	268.97	287.88
World Ex. US (1821)	205.91	9.1	184.57	149.24	185.42	171.18	13.5	1.98	205.99	185.47	148.28	184.70	170.78	206.71	176.94	187.72
World Ex. UK (2256)	252.00	15.2	225.88	182.64	226.92	222.02	17.4	1.64	251.82	226.73	181.27	225.79	221.42	252.00	199.58	210.88
World Ex. Japan (1983)	317.48	16.0	284.58	230.10	285.89	307.07	19.3	2.05	317.05	285.47	228.23	284.29	306.56	317.48	233.10	243.62
The World Index (2468)	256.19	14.3	229.64	185.69	230.70	226.54	16.7	1.84	256.20	230.68	184.43	229.72	226.23	256.20	202.38	219.89

 Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local). Brazil, Thailand and Americas: Oct 31, 1994 = 180.44 (US $ Index), 164.07 (Pound Sterling) and 149.94 (Local). Indonesia and Philippines June 28 1996 = 214.14 (US $ Index), 204.33 (Pound Sterling) and 184.40 (Local). CONSTITUENT CHANGES DURING THE WEEK ENDING 20/6/97: Deletions: Panenergy (USA), Saint Louis (France) and USLIFE Corp (USA). Reclassification: Providian Financial Corp: Insurance Life (141) to Financial Institutions (121) (USA). Name change: Groupe Worms Et Cie to Worms & Cie (France).

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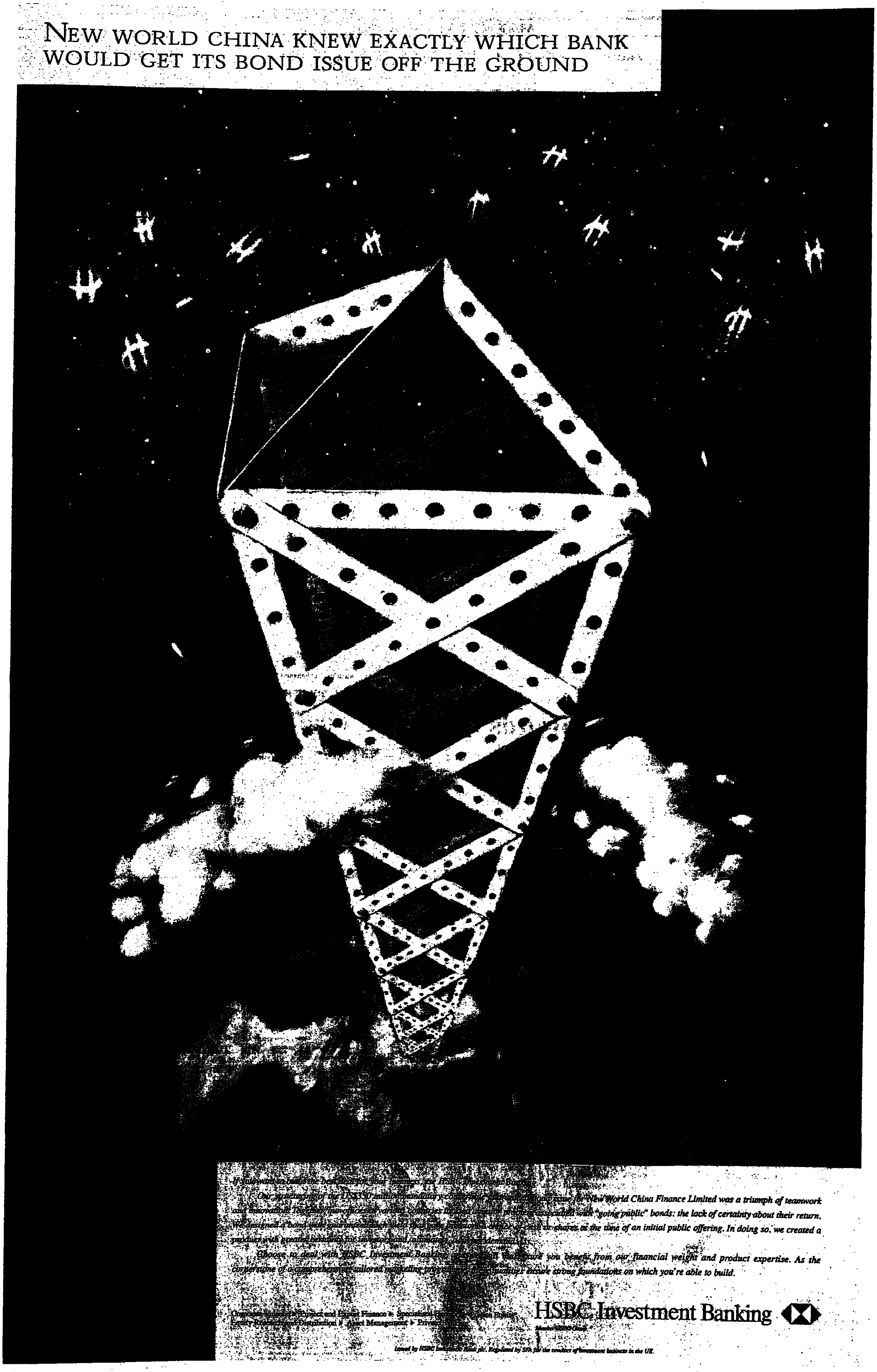


MARKETS: This Week

NEW YORK By Richard Tomkins

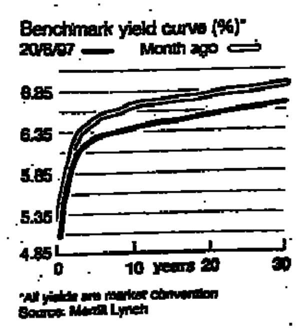
US markets have been riding high amid strong corporate profits growth and inflows of economic data indicating that inflationary pressures in the economy are not as great as had previously been feared.

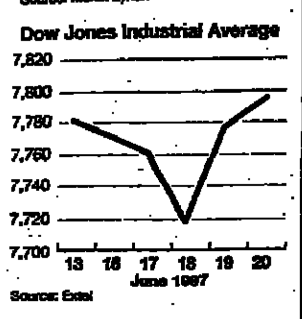
On Friday, the Dow Jones Industrial Average rose 19.45 points to a new closing high of 7,796.51 and yields on government securities were at their lowest in four months: at the end of the day, the price of the 30-year long bond was up $\frac{1}{32}$ at $99\frac{1}{16}$, taking the yield down to 6.66 per cent.

Analysts seem to be taking an optimistic view of the outlook for equities and bonds. Equities are being pushed ahead by increasing optimism about the outlook for profits growth and receding fears of inflation.

Mr Ralph Acampora, analyst with Prudential Securities, has raised his year-end estimate for the Dow Jones Industrial Average from 8,250 to 8,750, and expects it to reach 10,000 by June next year.

Bonds are also benefiting from the inflation outlook as investors become increasingly confident that the Federal Reserve will not see a need to push up interest rates when its open market committee next meets on July 1 and 2.





Influential statistics due to be released this week include the Conference Board's consumer confidence index tomorrow and the University of Michigan's consumer sentiment index on Friday. Both are expected to show that confidence remains high.

However, the report on durable goods orders due out on Wednesday is expected to show that orders rose by a reassuringly modest 0.5 per cent in May.

LONDON By Philip Coggan

The UK equity market took a battering last week, with the FTSE 100 index falling on every day as investors reacted to reports that dividend tax credits would be abolished in the Budget and that consumer demand was accelerating.

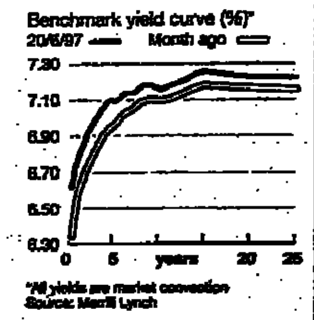
With his first Budget only nine days away, investors are likely to continue to be nervous about the tax proposals of Mr Gordon Brown, the chancellor.

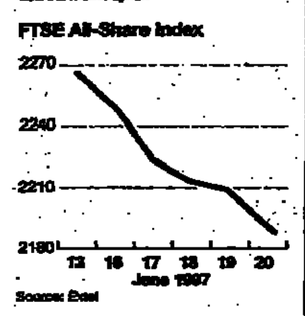
In the absence of significant economic statistics, investors will have to search for alternative confirmation of the sharp growth in retail sales announced last week.

The results of Harvey Nichols, Asda and Great Universal Stores will be pored over, as will the chairman's statement at the annual general meeting of Sears.

Some analysts were fearing last week that the monetary policy committee would raise base rates by half a percentage point when it next meets to head off inflationary pressures prompted by a consumer boom.

Mr Corey Miller of Credit Lyonnais Laing is sticking to his end-year forecast of 4,450 for the Footsie, saying that budget and interest rate risks and the effect of sterling's strength on corporate earnings made the fundamental outlook highly uncertain.





For the moment, the equity market is still being given some support by gilts, which have been lifted by a buoyant international bond market and by the continuing afterglow of the decision to let the Bank of England set interest rates. The yield on the 10-year issue is still around a third of a point below its level before the election.

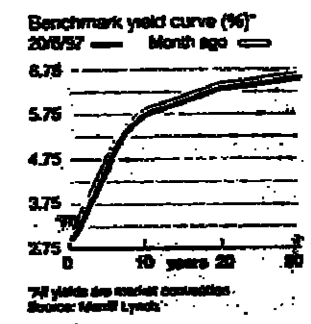
FRANKFURT By Andrew Fisher

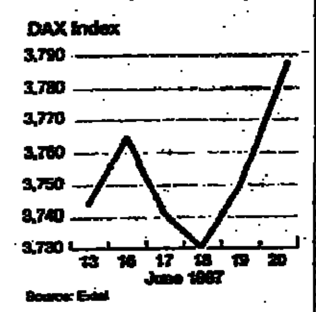
Close watchers of Germany's DAX index of blue chips have had to set their sights ever higher in recent months as new records have steadily been achieved. On Friday, it finally edged over 3,800, although it closed slightly below this level.

This was despite the "triple witching" expiry of DAX futures, DAX options and stock options. Commerzbank said 4,000 was possible if interest rates remained at present levels and the dollar stayed around DM1.70.

Landesbank Rheinland-Pfalz said the upward trend on the German stock market remained intact. Although the economy was still hesitant, hopes were justified that domestic demand would soon match that from abroad. It cited the latest business sentiment index from the Ifo economic research institute – showing a rise in May in west Germany to 95.3 from 94.7 in April – in support of this.

This week, a new milestone will be passed in the German market, with the issue of around DM1bn worth of shares by Pro Sieben. This is the first television company to be listed in Germany and one of the few media stocks in Europe. The price range will be set today using the book-building method, with analysts estimating anything from DM60 to DM80. On Thursday, Deutsche Telekom will hold its first annual meeting as a quoted company since its DM20bn issue in November.





On the bond market, uneasiness about the single currency after the French election and the German government's unsuccessful attempt to revalue its gold reserves to help meet the Maastricht criteria caused some jitters.

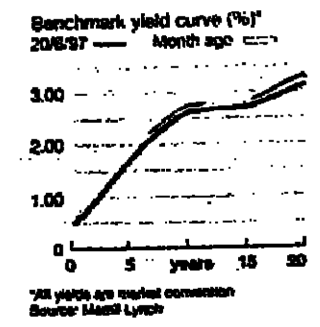
TOKYO By Gwen Robinson

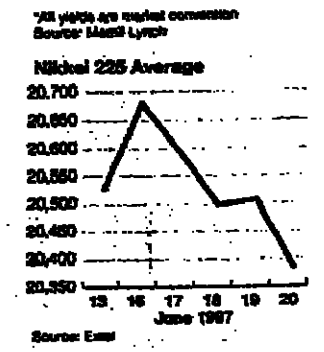
After digesting the results of the G7 Denver summit and bad news on Japan's soaring trade surplus, markets are likely to remain sluggish in the first half of the week. Investors are expected to stay on hold for the mid-week publication of the Bank of Japan's quarterly "tankan" survey of business conditions, for clues on the direction of interest rates.

Japanese government bonds rose at the start of last week in expection that the tankan would show weak business sentiment and erase speculation about a rise in the official discount rate from its current low of 0.5 per cent. Equities, meanwhile, advanced on hopes that the dollar had stabilised against the yen and solid foreign buying.

But both bond and equities markets lost momentum later in the week on renewed exchange-rate turbulence and uncertainty over the impact of the Denver summit on currency markets. News that Japan's May trade surplus more than tripled from a year earlier added to concerns about increased US-Japan trade friction.

Economists predict the tankan will be weak overall, although business conditions among large manufacturers and non-manufacturers are expected to show an improvement despite the negative effects of the April 1 sales tax increase from 3 to 5 per cent and the yen's appreciation. Even a mediocre outlook, however, will hit JGB prices and drive up yields.





In equities, the Nikkei 225 Average is expected to hover around the 20,000 level as stocks maintain their recent see-saw movement between continued buying by foreign investors and profit-taking by domestic institution.

COMMODITIES By Kenneth Gooding

Aluminium row to resurface

The row about the 6 per cent tariff on primary aluminium imports charged by European Union countries is almost certain to bubble up again today at the second annual aluminium conference organised by the Financial Times and the CRU International consultancy.

Mr Jean-Pierre Ergas, executive vice-president Europe at Alcan Aluminium, the Canadian group that is the second-biggest producer of the light metal, is bound to raise the issue.

Alcan, and other UK-based producers, broke ranks with their European colleagues in October by calling for an end to the tariff, which is charged on about 60 per cent of the aluminium imported by EU countries. They pointed out that the EU imports about half of its primary aluminium requirements and suggested important users such as the packaging, automotive and aerospace industries were less competitive because they had to bear the brunt of the tariff.

Gulf aluminium producers, who account for about 20 per cent of the world market, are also pressing for the removal of the tariff.

The European Aluminium Association, however, continues to defend the tariff. "There could be irreversible harm to the European industry if it was removed," insists Mr Bernard Legrand, the association's chairman, "it is a partial but fair buffer to help compensate the European industry for the disadvantages we suffer on currencies and our geographic position."

These arguments apart, the outlook for aluminium seems bright. Mr Nick Mason of CRU, suggests that global consumption this year will rise by 5 per cent to 18.4m tonnes and there will be a supply shortfall of about 120,000 tonnes. Nevertheless, CRU predicts three-month prices will drift lower to end the year in the US$1,500 to $1,600 range.

Next year consumption is likely to rise by 3 per cent to 18.9m tonnes and supply and demand should about balance, says Mr Mason.

OTHER MARKETS Compiled by Jeffrey Brown

Leading bourses start a week of limited corporate news at or near their all-time peaks.

PARIS

French shares ended another volatile week with net losses. Sentiment took its cue from the prevailing political breeze and in mostly nervous, low-volume trading the leading CAC 40 index lost ground. Most brokers expect political events to continue to dictate direction.

Last week's government policy statement, far from clearing the air, has effectively added to investors doubts about European monetary union. The public finances are "serious" said prime minister Lionel Jospin on Thursday, in a speech that underlined his government's commitment to restrictive labour markets and state control of industry.

Many brokers feel the corporate restructuring story that drove share prices sharply higher earlier in the year is now a dead duck. "It looks as if restructuring hopes are rapidly running out of credibility. The emphasis is on preserving jobs", said one analyst.

In this respect, this week's first, post-election survey of business confidence will be of added interest. The corporate focus is likely to remain on LVMH, which spent much of last week busily buying shares in Grand Metropolitan. On Friday's it was said to hold 6.29 per cent.

The luxury goods leader, which has a 14 per cent stake in GrandMet and extensive trading links, is determined to change the shape of GrandMet's plans to merge with Guinness

MILAN

The next round in the privatisation of energy giant Eni promises to keep Italian equities bubbling. Driven by Emu hopes and strong bonds, the bourse has been hitting record highs lately but sentiment has also been bolstered by talk of a rapid take-up up of the Eni shares coming on offer.

Applications open today and extend until Friday but may well close early. The issue, reducing the government stake in Eni from 69 per cent to 57 per cent, is valued at around $6.3bn and is the biggest equity offering to be staged in Milan. After the issue, Eni will account for some 16 per cent of total bourse value.

Eni, Europe's second largest natural gas company, was suitably upbeat at last week's pre-issue roadshow. The management cited strong market segments and rising returns on capital employed as the group headed towards a target of 14 per cent.

HONG KONG

Bullish brokers expect the stock market to sweep still higher this week: the last before Hong Kong reverts to Chinese sovereignty, *writes Louise Lucas from Hong Kong.*

On Friday an unprecedented wave of liquidity – HK$26.6bn, much of which was reported to have come from China – drove the benchmark Hang Seng Index to a record 15,154, up 4.5 per cent on the day.

A mix of handover euphoria, backed by mainland money flows and speculation of further stake-buying by China companies in Hong Kong corporates, is expected to continue this week. The Hong Kong stock market is closed most of the following week for public holidays to mark the July 1 handover.

Views on the immediate outlook for the market are polarised. Some brokers are decidedly bullish, looking for the Hang Seng index to breach the 16,000 level by mid-July.

However, there is no shortage of brokers taking a more sober view, pointing to uncertainty in the property sector – spiralling house prices are to be an early issue addressed by the new government – and a clampdown on stock market speculation in China.

CURRENCIES By Simon Kuper

Sentiment shows shift towards the dollar

The dollar could be due a comeback this week, many traders believe. Last month the US currency lost nearly 12 per cent of its value, hit by hints that Japan might raise interest rates soon and by growing tensions between Washington and Tokyo over the soaring Japanese trade surplus. The yen has jumped to just below Y115 against the dollar, from Y127 in early May.

But in the second half of last week the dollar crept upwards, and sentiment may be shifting further its way. The G7 summit that ended in Denver yesterday said Japan should reduce its surplus by stimulating domestic demand, not by further strengthening the yen.

And this week any residual belief in a Japanese rate rise could fade. Already, the money markets are pricing in just a 25 basis point rate increase by the end of the year, to 0.75 per cent.

Tomorrow the tankan, the Bank of Japan's quarterly survey of domestic business sentiment, is expected to show a flat or "zero" reading for June. The consumption tax increase slowed the economy in the second quarter, and some exporters may already be suffering from the yen's rebound.

British exporters are already familiar with the problem of a strong currency. The pound rose further last week, and UK trade data on Wednesday and balance of payments figures on Friday are forecast to show a bleak picture.

Away from the major currencies, the markets will be keen to find out whether Mr Thanong Bidaya, the new Thai finance minister, is willing to devalue the baht. Thailand's currency has come under heavy pressure in recent weeks.

Another man with the markets' ear is Mr Lionel Jospin, the new French prime minister. Does France want to meet the fiscal criteria for Emu? Mr Jospin has said little as yet, leading many to assume that he favours an Emu with many entrants and lax rules.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Gencor (SA)/QNI (Australia)	Merger	Mining	$870m	Nickel reshaping
BT Industries (Sweden)	Raymond (US)	Heavy vehicles	$373m	Debt & rights to finance
Rank Group (NZ)	Burns Philp (Australia)	Food	$150m	Investment stake
Saint-Gobain (France)	Unicorn (UK)	Abrasives	$141m	Agreed bid
Britax International (UK)	Buderus Sell (Germany)	Aircraft products	$120m	Creates world No 2
BankAmerica (US)	Hortex (Poland)	Food processing	$28m	EBRD-linked buy
Clyde Blowers (UK)	CV Sootblowers (US)	Cleaning equipm't	$12.2m	Paper & cash buy
Glaxo Wellcome (UK)	Spectra Biomedical (US)	Pharmaceuticals	$9m	Genetics study move
Plysu (UK)	Iplast (Spain)	Packaging	$7m	Bottle buy
Phillips (Netherlands)/ Lucent Technologies (US)	Philips Consumer Communications (JV)	Telecoms products	n/a	Crucial cordless move

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, June 20, 1997. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7896.50	4750.00	2742.34	4142.68
Albania	(Lek)	295.653	178.750	103.198	155.896
Algeria	(Dinar)	98.5440	59.3700	33.6690	50.9070
Andorra	(French Fr)	9.6685	5.8455	3.3749	5.0961
Angola	(Readj Kwanza)	325704.0	198919.0	113699.0	171741.7
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Dominican Rep	(D Peso)	23.3131	14.0950	8.1375	12.2929
Ecuador	(Sucre)	6532.47o	3949.50	2280.18	3444.53
	(Sucre)	6494.43a	3926.50	2266.90	3424.47
Egypt	(Egyptian £)	5.6156	3.3952	1.9602	2.9611
El Salvador	(Colon)	14.4808	8.7550	5.0546	7.6356
Equat'l Guinea	(CFA Fr)	966.850	584.550	337.490	509.812
Estonia	(Kroon)	22.9146	13.8540	7.9986	12.0827
Ethiopia	(Ethiopian Birr)	10.7973	6.5280	3.7688	5.6934
Falkland Is	(Falk £)	1	0.6046	0.3491	0.5273
Faroe Is	(Danish Krone)	10.9097	6.5959	3.8081	5.7526
Fiji Is	(Fiji $)	2.3461	1.4185	0.8189	1.2371
Finland	(Markka)	8.5627	5.1691	2.9859	4.5256
France	(Fr)	9.6685	5.8455	3.3749	5.0961
Fr. Cty/Africa	(CFA Fr)	966.850	584.550	337.490	509.812
Fr. Guiana	(Local Fr)	9.6685	5.8455	3.3749	5.0961
Fr. Pacific Is	(CFP Fr)	175.438	106.069	61.2372	92.5074
Gabon	(CFA Fr)	966.850	584.550	337.490	509.812
Gambia	(Dalasi)	16.4342	9.9360	5.7364	8.6656
Germany	(D-Mark)	2.8646	1.7321	1	1.5106
Ghana	(Cedi)	3468.79	2096.00	1210.13	1828.01

		£ STG	US $	D-MARK	YEN (X 100)
Gibraltar	(Gib £)	1	0.6046	0.3491	0.5273
Greece	(Drachma)	452.675	273.665	158.012	238.693
Greenland	(Danish Krone)	10.9097	6.5959	3.8081	5.7526
Grenada	(E Carib $)	4.4658	2.7000	1.5588	2.3548
Guadeloupe	(French Fr)	9.6685	5.8455	3.3749	5.0961
Guam	(US $)	1.6540	1	0.5774	0.8721
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Mauritius	(Maur Rupee)	34.1965	20.6750	11.9367	18.0316
Mexico	(Mexican Peso)	13.1617	7.9575	4.5943	6.9401
Moldova	(Leu)	7.6084	4.6000	2.6557	4.0119
Monaco	(French Fr)	9.6685	5.8456	3.3749	5.0961
Mongolia	(Tugrik)	1341.23	810.900	468.160	707.221
Montserrat	(E Carib $)	4.4658	2.7000	1.5588	2.3548
Morocco	(Dirham)	15.7064	9.4960	5.4824	8.2819
Mozambique	(Metical)	18566.8	11225.4	6480.80	9790.16
Namibia	(S A Rand)	7.4595	4.5100	2.6039	3.9334
Nauru Is	(Australian $)	2.2017	1.3311	0.7685	1.1609
Nepal	(Nepalese Rupee)	94.1953	56.9500	32.8792	49.6686
Netherlands	(Guilder)	3.2226	1.9484	1.1249	1.6992
N'nd Antilles	(A/Guilder)	2.9607	1.7900	1.0334	1.5611
New Zealand	(NZ $)	2.4136	1.4592	0.8425	1.2726
Nicaragua	(Gold Cordoba)	15.5597	9.4073	5.4312	8.2046
Niger Rep	(CFA Fr)	966.850	584.550	337.490	509.812
Nigeria	(Naira)	36.1995o	21.8860	12.6356	19.0877
	(Naira)	140.011m	84.6500	48.8727	73.8270
Norway	(Nor. Krone)	12.0276	7.2718	4.1984	6.3421
Oman	(Rial Omani)	0.6368	0.3850	0.2223	0.3358

		£ STG	US $	D-MARK	YEN (X 100)
Pakistan	(Pak. Rupee)(2)	66.7383	40.3496	23.2959	35.1907
Panama	(Balboa)	1.6540	1	0.5774	0.8721
Papua New Guinea	(Kina)	2.3020	1.3918	0.8036	1.2138
Paraguay	(Guarani)	3556.10	2150.00	1241.27	1875.11
Peru	(New Sol)	4.3790	2.6475	1.5285	2.3090
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Ukraine	(Hryvna)	2.9215	1.7663	1.0198	1.5406
U A E	(Dirham)	6.0735	3.6720	2.1200	3.2030
United Kingdom	(£)	1	0.6046	0.3491	0.5273
United States	(US $)	1.6540	1	0.5774	0.8721
Uruguay	(Peso Uruguayo)	15.6220	9.4450	5.4529	8.2374
Vanuatu	(Vatu)	189.631	114.650	66.1932	99.9913
Vatican	(Lira)	2801.31	1693.66	977.836	1477.11
Venezuela	(Bolivar)	802.199v	485.005	280.018	422.994
Vietnam	(Dong)	19286.9	11662.0	6732.87	10170.9
Virgin Is-British	(US $)	1.6540	1	0.5774	0.8721
Virgin Is-US	(US $)	1.6540	1	0.5774	0.8721
Western Samoa	(Tala)	4.1765	2.5253	1.4580	2.2033
Yemen (Rep of)	(Rial)	215.030r	130.000	75.0554	113.379
Yugoslavia	(New Dinar)	9.4417	5.7084	3.2957	4.9788
Zambia	(Kwacha)	2170.88	1312.50	757.773	1144.69
Zimbabwe	($)	18.7151	11.3150	6.5327	9.8683
ECU	(ECU)	1.4635	0.8848	0.5108	0.7717
SDR	(SDR)	1.17965	0.713844	0.415185	0.632445

Abbreviations: (a) Free rate; (m) Market rate; (o) Official rate; (r) Parallel rate (t) Tourist rate (u) Currency fixed against the US Dollar (v) Floating rate (1) Market rate now shown for Cuba (2) Pakistan Rupee devalued by 7.86pc against US dollar 22/10/96 (3) Name changed from Zaire on May 19th 1997, currency scheduled to change to Congolese Francs. FT enquiries to Business Research Centre 0171 256 5130. Some data derived from THE WM/REUTERS CLOSING SPOT RATES & Bank of America, Economics Department, London Trading Centre. Enquiries: 0171 634 4365.

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Friday, June 20, 1997

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EMERGING MARKETS By Louise Lucas

Hong Kong finds hero in China

Hours after the Hong Kong stock market closed at an all-time high on Friday, China moved to tighten controls over the mainland-backed companies at the forefront of recent rallies.

The new rules, which restrict overseas listings and asset injections from parent companies, will cool a highly speculative sector of the market but is unlikely to drain away all enthusiasm, brokers say.

Beijing acted as Hong Kong's stock market, preparing to operate under the Chinese flag next week, has seen share prices galloping northwards.

The Hang Seng Index closed Friday at a record 15,154.36 on unprecedented turnover of HK$26.6bn amid speculation that China's shopping trip among Hong Kong corporates is not over.

For many brokers, the growing influence of China Inc in the Hong Kong stock market and the economic ties with the mainland are reasons enough to classify Asia's second-biggest market as emerging.

Templeton Franklin Investment Services (Asia) says Hong Kong also lacks a full range of sectors – until the arrival of mainland companies the market was almost exclusively banking, property and light industry – and is very volatile. "But the big thing is, it's going back to China," the fund management house says.

As it sits at the crossroads, China is proving the market's hero – providing liquidity and inspiring investor confidence. The bogeyman is property, the biggest post-handover uncertainty.

"There are two markets: red and blue," says Mr Archie Hart of BZW Asia.

Most money is chasing the former: the mainland-backed companies, dubbed red chips, have seen share prices rise an average 40 per cent this year. Many have doubled or tripled in value.

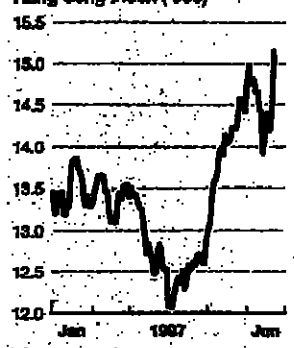
But as Mr Hart points out, their share prices have jumped on the back of liquidity, generally from China, and sentiment. Valuation models, he says, might as well incorporate "eye of newt, leg of toad and web of spider – it's totally devoid of anything to do with assets or fundamentals".

Blue chips, in contrast, have performed sluggishly at best and a number of brokerages are now trimming their *weightings*.

Brokers note that while the Hang Seng Index has risen 13.68 per cent so far this year, much of the gains accrue to HSBC Holdings – which major Asian indices, such as that run by Morgan Stanley, preclude on the basis that it is a UK stock.

Hong Kong

Hang Seng Index ('000)



Source: Datastream

Merrill Lynch points out that there have only been two other big winners this year: Hongkong Telecom, which has risen 50 per cent on anticipation of the China deal which finally emerged earlier this month, and China Light and Power.

CLP, the territory's biggest electricity provider, has also benefited from mainland participation: since Beijing's main investment agency took a 20 per cent *stake in the utility in January*, the share price has climbed 33 per cent.

Mr Adrian Faure, head of Hong Kong and China research at Merrill Lynch, says weak support for the index itself is further underlined by the pattern of trading volumes.

"While the market is seeing record daily trading volumes of HK$15bn–$20bn, turnover in HSI constituents has recently only accounted for about 30 per cent of the total compared with almost 60 per cent in 1996," he says.

The reason for this is property, which accounts for around 40–50 per cent of the stock market.

"There is one thing that definitely changes after the handover and that's the land policy. The big risk factor is how different will it be, and how much land is released. That matters far more to the Hong Kong market than how the Legislative Council is elected," says Mr Hart.

One of the major spurs for rocketing home prices in Hong Kong – where a tiny two-bedroom flat costs some HK$2.5m - has been the trickle of land released in recent years.

Mr Peter Churchouse, managing director at Morgan Stanley Asia, notes that the number of new flats coming on line dropped from *an annual* 32,000 – 35,000 in the late 1980s to 19,000 last year and 21,000 this year.

"Quite frankly, this government has cocked it up. The dripfeed system of land supply is out of keeping with the economic and demographic demand," he says. Hong Kong's population is swelling with the annual arrival of over 61,000 Chinese immigrants.

As such, he reckons the incoming government will content itself with increasing supply rather than trying to quell demand – for example by imposing a capital gains tax – and that prices will still show annual rises of 10–15 per cent.

Beyond ushering in a new land policy, the change of flags fluttering over Hong Kong is unlikely to impact on the direction of the stock market in the near term. The red chip fervour, which provided a capitalist metaphor for the final months of British rule, had already shown signs of waning amid efforts in Beijing to clamp down on domestic stock market speculation.

ING BARING SECURITIES EMERGING MARKETS INDICES

Index	20/06/97	Week on week movement Actual	Percent	Month on month movement Actual	Percent	Year to date movement Actual	Percent
World (449)	187.63	+2.86	+1.55	+12.61	+7.20	+27.51	+17.18
Latin America							
Argentina (22)	134.32	+0.95	+0.71	+10.27	+8.28	+27.19	+25.38
Brazil (23)	403.89	+10.21	+2.59	+48.16	+13.54	+142.86	+54.73
Chile (19)	219.83	–5.12	–2.28	+22.39	+11.34	+57.38	+35.32
Colombia (12)	241.63	+2.38	+0.99	+0.95	+0.40	+67.94	+39.11
Mexico (26)	104.12	+1.38	+1.34	+8.76	+9.19	+22.44	+27.48
Peru (12)	1,375.80	+15.32	+1.13	+122.02	+9.73	+368.58	+36.59
venezuela (7)	79.66	+3.34	+4.37	+10.99	+16.01	+17.48	+28.11
Latin America (123)	201.14	+2.92	+1.48	+20.35	+11.25	+57.64	+40.17
Europe							
Czech Rep.(13)	83.70	+0.37	+0.45	–1.11	–1.31	–20.57	–19.73
Greece (18)	169.10	–14.21	–7.75	–22.70	–11.84	+56.79	+50.57
Poland (25)	324.64	–10.93	–3.26	–12.69	–3.76	–19.11	–5.56
Portugal (19)	192.90	+4.55	+2.42	+12.70	+7.05	+48.72	+31.96
South Africa (28)	144.32	–1.97	–1.35	–1.10	–0.75	+14.44	+11.12
Turkey (26)	165.91	+2.97	+1.82	+4.16	+2.57	+40.87	+32.68
Europe (129)	137.27	–1.54	–1.11	–0.84	–0.60	+18.94	+16.00
Asia							
China (27)	65.46	+1.67	+2.62	+2.88	+4.61	+8.98	+15.89
Indonesia (30)	164.34	+3.14	+1.95	+16.72	+11.33	+7.91	+5.06
Korea (23)	94.78	–2.03	–2.10	+8.07	+9.30	+13.56	+16.70
Malaysia (24)	238.05	+6.12	+2.64	+9.55	+4.18	–42.37	–15.11
Pakistan (13)	74.48	+3.27	+4.60	+7.94	+11.93	+16.03	+27.42
Philippines (18)	275.81	+6.53	+2.42	+33.57	+13.86	–37.98	–12.10
Taiwan (31)	223.15	+17.86	+8.70	+23.78	+11.93	+37.72	+20.34
Thailand (29)	84.05	–10.22	–10.84	–28.78	–25.51	–71.11	–45.83
Asia (193)	213.47	+6.18	+2.98	+13.33	+6.66	–4.10	–1.89

All indices in $ terms, January 7th 1992=100. Source: ING Baring Securities.

INTERNATIONAL BONDS By Edward Luce

Strong demand continues for dollar assets

For the second time in a month, international dollar bond issuance hit record levels last week, with investors showing a clear preference for the greenback. Strong demand for dollar assets prompted borrowers to issue almost $15bn in new bonds.

With the exception of a DM500m issue by China last Thursday, the D-Mark and other leading European currencies barely got a look during the week.

"Investors are clearly reweighting their portfolios in favour of the dollar," said a syndicate manager at Deutsche Morgan Grenfell. "All of Europe's core currencies and the Japanese yen have been ceding ground."

The proportion of international bonds denominated in US dollars has risen to 52 per cent this year from 47 per cent in 1996 and 41 per cent in 1995, *according* to Deutsche Morgan Grenfell.

Apart from sterling, which has seen its share of the market rise from 5 per cent to 12 per cent since 1995, all other European currencies lost ground in that period. The D-Mark, Europe's most popular currency, has seen its share fall from 17 per cent in 1995 to 10 per cent so far this year.

Analysts say the shift towards dollars is likely to continue for the foreseeable future, with worries about European monetary union underpinning the trend.

Jitters about the credibility of the euro are unlikely to subside between now and its scheduled launch in January 1999. This has persuaded many that the dramatic convergence of bond yields towards the German benchmark in the last 18 months has run its course, or has even gone too far. From investor's point of view this has reduced the scope for returns on bonds priced off Europe's leading currencies.

"We are in the interesting situation where the US Treasury market is offering higher yields than most other developed countries," said Mr Mark Cliffe, chief international economist at HSBC. "With yields on Europe's leading government bonds so low, investors are inevitably going to switch their emphasis."

Apart from Emu-related concerns, the dollar's popularity has been boosted by renewed optimism about the US economy. Weak US consumer spending figures and surprisingly subdued wage pressures have convinced investors the US Federal Reserve is unlikely to jump the gun with a series of interest rate increases.

Ironically, from borrowers' point of view the opposite scenario is equally compelling. If Mr Alan Greenspan were to raise interest rates at the FOMC meeting next month, borrowers could congratulate themselves on locking in the cost of their debt at lower spreads before the crunch arrived. Whichever prognosis proves correct, there is, for the time being, a happy conjunction of strong supply and demand in US dollars.

Regardless of immediate US interest rate expectations, longer-term factors are also boosting issuance in the US dollar says Mr Cliffe. The reduction of the US budget deficit over the last few years has led to a fall in US Treasury bond supply.

US Treasury issuance has dropped from $283bn in 1992 to just $152bn in 1996. The Treasury's decision this month to cut the number of annual 10-year auctions is expected to reduce supply to below $100bn in 1998, according to HSBC.

"The US deficit has been reduced from 5 per cent of GDP to just one per cent in just five years," said Mr Cliffe. "This has opened up a window for other issuers to step into the debt market."

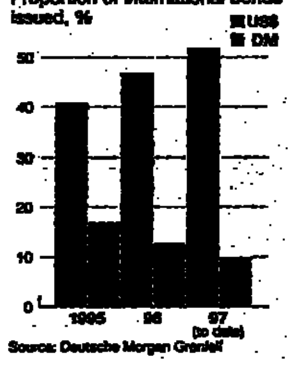
Among these, emerging markets have been by far the most prolific, with borrowers such as Russia and Brazil skilfully tapping bullish sentiment with jumbo dollar offerings. Some economists, however, believe that the window may not be open this wide for much longer.

"We are at the intersection of the global interest rate environment," said Mr Avinash Persaud of J.P. Morgan. "For the first time in years, a handful of countries including Japan, the UK and the Netherlands are about to raise interest rates."

Higher global interest rates will reduce the supply of funds for investment in fixed-income assets and discourage borrowers from coming to the market, says Mr Avinash. But the decline in total volumes would have little impact on the more secular trend in favour of the US dollar, he added.

Boom time for dollars

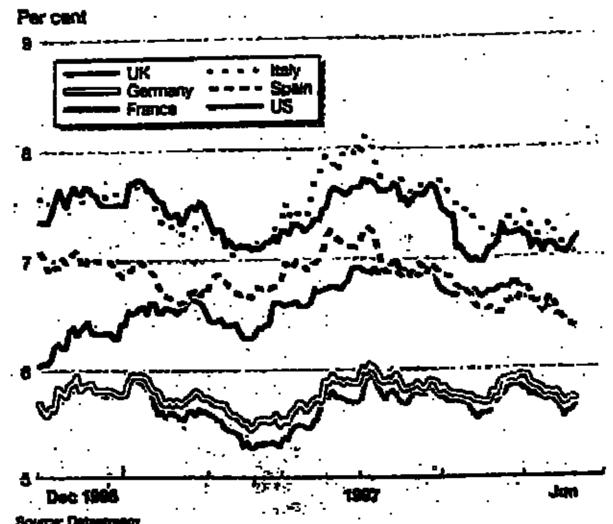
Proportion of international bonds issued, %



Source: Deutsche Morgan Grenfell

10-year benchmark bond yields

Per cent



Source: Datastream

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.00	0.50	2.50	3.10[1]	6.75	6.50[2]
Overnight	n/a	n/a	2.95	3.15	6.94	n/a
Three month	5.08	0.40	3.04	3.26	6.65	6.81
One year	5.64	0.59	3.17	3.40	6.37	6.79
Five year	6.28	1.69	4.57	4.83	6.36	7.08
Ten year	6.38	2.63	5.72	5.89	6.98	7.13

(1) France-intervention rate. (2) UK-Base rate. Source: Reuters.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
Taiwan Litoo Electronic(a)§	72	Jun 2004	0.50	100.00	-	-	Bankers Trust Intl
Saxon AST, Class AV-1(b)‡	293.56	Jun 2027	(b1)	100.00R	-	-	Merrill Lynch
Den Norske Bank‡	500	Jul 2002	(c)	100.00R	-	-	Lehman Brothers/UBS
JFM	400	Jul 2007	6.75	99.998R	6.750	+23(6⅝-May07)	Merrill/Tokyo-Mitsubishi
Abbey Natl Trsy Services	400	Jun 2000	6.25	99.607R	6.398	+15(6⅜-May00)	Salomon/SBC Warburg
Korea Dev'ment Bank(d)‡	300	Jun 2002	(d1)	99.95R	-	-	Goldman Sachs Intl
BPER‡	300	Jul 2002	(e)	99.825R	-	-	Citibank/SBC Warburg
Hitachi Credit Bank	200	Jul 2002	6.625	99.824R	6.668	+28(6½-May02)	JP Morgan Securities
Cydsa	200	Jun 2002	9.375#	99.591R	9.480	+320(6½%-02)	Citibank International
Lebanese Republic(f)	100	Jul 2007	7.50	99.716R	7.541	+100(6⅝%-07)	Merrill Lynch Intl
BNG	1bn	Jul 2002	6.375	99.488R	6.498	+12(6½-May02)	ABN/Goldman/Nomura
CSN Iron(g)	600	Jun 2007	9.125#	99.55R	9.197	+275(6⅝%-07)	JP Morgan Securities
United Mexican States(i,j)	500	Jan 2007	9.875#	105.639	-	-	Salomon Brothers Intl
American Express Co	500	Jun 2004	6.75#	99.824R	6.782	+39(7¼-May04)	Lehman Brothers Intl
Inter-American Dev Bank	500	Jun 2002	6.375	99.702R	6.447	+7(6½-May02)	Lehman/JP Morgan
Keybank Natl Association‡	500	Jul 2002	(k)	99.793R	-	-	JP Morgan Securities
BES Finance(m)‡	200	undated	(m1)	99.756R	-	-	JP Morgan/UBS
LW Rentenbank(l)	200	Jul 2001	6.25	99.825R	6.301	+8(6⅝-May00)	DG Bank
Dow Chemical Co	200	Jul 2002	6.625	99.743R	6.687	+31(6½-May02)	DKB Intl/Merrill Lynch
Banco Inter Atlantico	125	Jun 2000	8.25§	99.8696R	8.301	+215(6⅛%-00)	Crdt Agricole Indosuez
BayerLB New York Branch(o)	1bn	Jun 2007	6.625#	99.618R	6.678	+25(6⅝-May07)	Merrill/JP Morgan
Banque Paribas‡	1bn	Jul 2002	(p)	99.848R	-	-	Paribas
Wizard Finance‡	525	Jul 2000	(q)	99.94	-	-	Tokyo-Mitsubishi Intl
Bankers Trust NY Corp(r)‡	300	Jul 2002	(r1)	99.794R	-	-	Deutsche/HSBC Mkts
Crédit Local de France	300	Jul 2001	6.50	99.925R	6.522	+22(6⅝-May00)	ABN Amro/DKB Intl
SNCF	200	Jul 2000	6.00	99.15R	6.320	+5(6⅝-May00)	Deutsche Morgan G'fell
DSL Bank	150	Jul 2003	6.50	99.62R	6.579	+15(6⅝-May00)	UBS
Macerich Co(t)§	150	Dec 2002	7.25#	100.00	-	-	Lazard Capital Markets
Seibu Department Stores★‡	90	Jul 2002	(u)	100.00	-	-	DKB International
Russian Federation	2bn	Jun 2007	10.00#	99.164R	10.13	+375(6⅝%-07)	JP Morgan/SBCW
United Mexican States(y)‡	1bn	Jun 2002	(y1)	99.367R	-	-	HSBC Mkts/Merrill
Republic of Cyprus	300	Jun 2002	6.625	99.40R	6.770	+37(Int 5yr)	SBC Warburg
FFF Corp(z)★‡	141.545	Aug 2028	(z1)	100.00R	-	-	Merrill Lynch
Samsung Electronics Co(C)§	300	Dec 2007	zero	100.00	-	-	Deutsche Morgan G'fell
Banque Intle à Luxembourg‡	150	Jul 2007	(D)	99.74R	-	-	JP Morgan Securities
Banco Mayo	50	Jun 1999	9.125#	99.978	9.142	+310(6¼%-99)	Paribas
D-MARKS							
Kingdom of Denmark(s)	500	Dec 2003	5.00	99.895R	5.025	+5(6%Sep03)	Deutsche Morgan G'fell
Peoples Republic of China	500	Jun 2002	5.00	99.659R	5.079	+55(4½Feb02)	CSFB/Deutsche MG
Volkswagen Intl Finance(E)§	100	Jul 2003	1.75	100.00	-	-	Commerzbank
YEN							
Wizard Finance	33.5bn	Jul 2000	1.62	100.00	1.620	-	Tokyo-Mitsubishi Intl
FRENCH FRANCS							
Province of British Columbia	2bn	Jul 2009	5.875	99.905R	5.886	+18(l)	Paribas
Province of Ontario	3bn	Jul 2009	5.875	99.144R	5.977	+22(l)	M Stanley/SocGen
SWISS FRANCS							
CSFB, London Branch(h)‡	100	undated	(h1)	102.50	-	-	CSFB
De NIB(s)	150	Dec 2001	2.00	99.60	-	-	UBS
STERLING							
Robert Fleming Capital‡	100	Oct 2000	(q)	100.00	-	-	Dresdner KB
Acres No 3, Class A(n)‡	97.81	Jun 2006	(n1,l)	99.92R	-	-	UBS
Eco-Bat Technologies	65	Jun 2007	9.125	99.314R	9.233	+200(7¼%-07)	Bankers Trust Intl
Merrill Lynch & Co‡	300	Jul 2002	(v)	99.768R	-	-	Merrill Lynch Intl
GECC	100	Jul 2002	7.00	99.272R	7.178	+12½(7Jun02)	SBC Warburg
Britannia Bldg Society(A)‡	50	Jul 2002	(A1)	100.10	-	-	UBS
ITALIAN LIRE							
World Bank(B)	300bn	Jul 2004	7.05	101.53	6.768	-	Sanwa International
GUILDERS							
BNG(s)	750	Dec 2003	5.80	99.65R	5.071	+18(6¼Apr03)	ING Barings
ABN Amro Bank	400	Jun 2009	6.125	99.48R	6.198	+42(l)	ABN Amro Hoare Govett
AUSTRALIAN DOLLARS							
GECC	100	Jul 2000	5.875	100.86	5.556	-	Deutsche Morgan G'fell
LUXEMBOURG FRANCS							
BNG(f)	2bn	Dec 2005	5.50	102.25	5.15	-	ABN Amro/BGL
Dresdner Bank Lux(f)	2bn	Dec 2006	6.00	102.65	5.62	-	BIL/Crédit Européen
CANADIAN DOLLARS							
KfW International Finance(s)	100	Dec 2002	5.375	98.975R	5.606	+17(7%Sep01)	Deutsche/Hambros
DANISH KRONER							
Crédit Local de France(l)	400	Dec 2003	5.75	101.98	5.37	-	BIL
ESCUDOS							
Eurofima‡	10bn	Jul 2007	(w)	100.00	-	-	BSN Portugal
RAND							
World Bank(x)	250	Jan 1998	15.375	100.05R	15.32	-	Credito/Toronto Dom

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ΦWith equity warrants. ★Unlisted. #Semi-annual coupon and yield. R: fixed re-offer price. a) Conversion price: NT$102.81. FX: 27.92NT$/US$. Puttable on 27/6/02 at 136.38%. Callable from 27/6/00, subject to 140% hurdle, at accreting value and par after 5 yrs. b) Asset Securities Trust. Av life: 2.14 yrs. 13 other tranches bring total to $485.861m. b1) 1-mth Libor 21bp. c) 3-mth Libor +5bp. d) Callable from Jun 00 at par. Puttable if credit ratings fall below A3/A-. d1) 3-mth Libor +⅜%. e) 3-mth Libor +10bp. f) Principal guaranteed by World Bank. g) 3-mth Libor +⅛%. h) SFr350m launched 11/6/97 was increased to SFr450m. Callable from Jul 07 at par. h1) 4⅜% to 23/7/07, then 3-mth Libor +155bp. i) Over interpolated yield. j) Fungible with $1bn. Plus 156 days accrued. k) 3-mth Libor +6¾bp. l) Long 1st coupon. m) Callable from Jun 02 at par. m1) 3-mth Libor +62½bp to Jun 02, then +212½bp. n) Av life: 4.15 yrs. n1) 3-mth Libor +15bp. n2) Class M1: £14.14m, 3-mth Libor +40bp, 99.92, 3.56 yrs. Class M2: £5.69m, 3-mth Libor +62½bp, 99.70, 4.71 yrs. o) Long last coupon. p) 3-mth Libor +⅛%. q) 6-mth Libor +18bp. r) Callable from Jul 00 at par. r1) 3-mth Libor +6¾bp. s) Short 1st coupon. t) Conv price: $31⅛. Callable from 15/6/02 at par. Greenshoe: $25m. u) 6-mth Libor +20bp. v) 3-mth Libor +7½bp. w) 6-mth Libor +10bp; max 9%. x) R500m launched 4/4/97 increased to R750m. y) Callable from Jun 00 at par. y1) 3-mth Libor +125bp. z) First Franklin Financial. Av life: 3.77 yrs. z1) 1-mth Libor +24bp. A) Issuers option to convert in one year to 8¼% fixed annual coupon. A1) 3-mth Libor +20bp. B) Callable on 22/7/98 at par. C) Convertible into shares or GDRs at Won123.635. FX: 888.5Won/US$. Puttable in 5 yrs at 131.057%. Callable after 2 yrs, subject to 135% hurdle, at accreting value and par unconditional after 5 yrs. D) 3-mth Libor +37½bp. E) Exchangeable into ords from 15/7/00 at DM1537.5. Callable from 15/7/00 at price to yield 10%. Note: Yields are calculated on ISMA basis.

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Jun 20		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.1574	+0.1745	454 - 693	20.1701	19.9575	20.103	3.2	19.9908	3.3	19.4848	3.3	102.8
Belgium	(BFr)	59.1306	+0.5316	796 - 815	59.2050	58.4980	58.9635	3.4	58.6202	3.5	57.0789	3.5	102.4
Denmark	(DKr)	10.9097	+0.0955	047 - 148	10.9149	10.7938	10.8824	3.0	10.825	3.1	10.5735	3.1	105.0
Finland	(FM)	8.5827	+0.0784	739 - 915	8.5920	8.4980	8.5574	3.5	8.5049	3.6	8.2922	3.4	82.1
France	(FFr)	9.6885	+0.0883	622 - 747	9.6777	9.5784	9.6424	3.2	9.5878	3.3	9.3431	3.4	104.9
Germany	(DM)	2.8848	+0.025	832 - 864	2.8888	2.8341	2.8564	3.5	2.839	3.6	2.7622	3.8	103.4
Greece	(Dr)	452.875	+3.79	381 - 989	453.085	448.132	454.458	-4.7	457.082	-3.9	465.45	-2.8	65.2
Ireland	(I£)	1.0964	+0.0073	942 - 985	1.0989	1.0871	1.098	0.4	1.095	0.5	1.087	0.9	98.5
Italy	(L)	2801.31	+20.78	941 - 322	2805.38	2775.45	2801.39	0.0	2801.41	0.0	2799.75	0.1	76.4
Luxembourg	(LFr)	59.1306	+0.5316	796 - 815	59.2050	58.4980	58.9635	3.4	58.6202	3.5	57.0789	3.5	102.4
Netherlands	(Fl)	3.2226	+0.0275	210 - 241	3.2255	3.1897	3.2192	3.5	3.1941	3.5	3.1102	3.5	101.9
Norway	(NKr)	12.0276	+0.0941	198 - 353	12.0355	11.9141	11.9949	3.3	11.9291	3.3	11.6834	3.0	98.3
Portugal	(Es)	288.772	+2.923	602 - 942	289.760	285.002	288.616	0.6	288.096	1.0	283.998	1.7	93.3
Spain	(Pta)	241.658	+2.138	527 - 789	241.870	239.260	241.404	1.3	240.73	1.5	237.112	1.9	77.3
Sweden	(SKr)	12.8038	+0.1077	958 - 118	12.8201	12.6922	12.7794	2.3	12.7271	2.4	12.5167	2.2	83.8
Switzerland	(SFr)	2.3833	+0.0164	817 - 848	2.3855	2.3643	2.3728	5.3	2.3516	5.3	2.2608	5.1	105.3
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	101.2
Ecu	-	1.4635	+0.0112	625 - 644	1.4648	1.4508	1.4608	2.4	1.4541	2.6	1.4245	2.7	-
SDR†	-	1.179650	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6538	+0.007	527 - 538	1.6583	1.6453	-	-	-	-	-	-	-
Brazil	(R$)	1.7827	+0.0121	820 - 834	1.7839	1.7715	-	-	-	-	-	-	-
Canada	(C$)	2.3008	+0.0141	997 - 019	2.3026	2.2833	2.294	3.5	2.2808	3.5	2.2313	3.0	83.9
Mexico	(New Peso)	13.1817	+0.1428	536 - 098	13.1938	13.0817	-	-	-	-	-	-	-
USA	($)	1.6540	+0.0075	535 - 545	1.6555	1.6455	1.6527	0.9	1.6499	1.0	1.6373	1.0	102.8
Pacific/Middle East/Africa													
Australia	(A$)	2.2017	+0.0003	003 - 031	2.2096	2.1912	2.2011	0.3	2.1992	0.5	2.1892	0.6	92.2
Hong Kong	(HK$)	12.8061	+0.0597	014 - 108	12.8169	12.7403	12.8051	0.1	12.7987	0.2	12.7436	0.5	-
India	(Rs)	59.2215	+0.2438	822 - 807	59.3040	58.8450	59.4167	-4.0	59.8173	-4.0	61.497	-3.8	-
Israel	(Shk)	5.6796	+0.0461	652 - 819	5.6839	5.6248	-	-	-	-	-	-	-
Japan	(Y)	189.648	+2.144	524 - 771	189.850	188.040	188.673	6.2	186.718	6.2	178.433	5.9	132.8
Malaysia	(M$)	4.1593	+0.0172	572 - 614	4.1652	4.1383	4.1635	-1.2	4.1715	-1.2	4.1902	-0.7	-
New Zealand	(NZ$)	2.4136	+0.0181	111 - 160	2.4167	2.3959	2.4135	0.1	2.4144	-0.1	2.4216	-0.3	112.5
Philippines	(Peso)	43.6325	+0.1895	697 - 953	43.7005	43.5624	43.7923	-4.4	44.0418	-3.8	45.0988	-3.4	-
Saudi Arabia	(SR)	6.2038	+0.0282	011 - 065	6.2086	6.1728	6.2003	0.7	6.1919	0.8	6.1554	0.8	-
Singapore	(S$)	2.3608	+0.0138	592 - 623	2.3628	2.3471	2.3561	2.4	2.3461	2.5	2.2979	2.7	-
South Africa	(R)	7.4595	+0.0305	556 - 634	7.4712	7.4210	7.5202	-9.8	7.6391	-9.6	8.0751	-8.3	-
South Korea	(Won)	1468.75	+5.83	500 - 251	1474.77	1461.86	-	-	-	-	-	-	-
Taiwan	(T$)	46.1880	+0.2012	327 - 433	46.2885	45.9753	46.1715	0.4	46.1317	0.5	45.934	0.6	-
Thailand	(Bt)	43.0537	+0.4175	753 - 321	43.2380	39.6960	43.3903	-9.4	43.8519	-7.4	44.8821	-4.2	-

† Rates for Jun 19. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T. The exchange rates printed in this table are also available on the internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jun 20		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	12.1871	+0.0505	835 - 906	12.1925	12.1115	12.1631	2.4	12.1141	2.4	11.8901	2.4	102.4
Belgium	(BFr)	35.7500	+0.16	300 - 700	35.7800	35.5150	35.675	2.5	35.5235	2.5	34.83	2.6	102.5
Denmark	(DKr)	6.5959	+0.0279	949 - 969	6.5976	6.5631	6.5842	2.1	6.5589	2.2	6.4535	2.2	104.4
Finland	(FM)	5.1891	+0.024	853 - 928	5.1974	5.1590	5.1776	2.7	5.154	2.7	5.0601	2.5	81.5
France	(FFr)	5.8455	+0.027	435 - 475	5.8478	5.8110	5.834	2.4	5.8102	2.4	5.7013	2.5	104.5
Germany	(DM)	1.7321	+0.0074	316 - 325	1.7325	1.7211	1.7283	2.7	1.7205	2.7	1.6855	2.7	103.2
Greece	(Dr)	273.695	+1.055	590 - 780	273.800	272.020	274.98	-5.7	277.035	-4.9	284.185	-3.8	64.9
Ireland	(I£)	1.5087	-0.0032	062 - 112	1.5157	1.5057	1.5079	0.6	1.507	0.5	1.5074	0.1	-
Italy	(L)	1693.66	+4.91	302 - 430	1694.41	1685.50	1695.43	-1.3	1698.44	-1.1	1701.96	-0.5	76.1
Luxembourg	(LFr)	35.7500	+0.16	300 - 700	35.7800	35.5150	35.675	2.5	35.5235	2.5	34.83	2.6	102.5
Netherlands	(Fl)	1.9484	+0.0078	480 - 487	1.9490	1.9365	1.9441	2.6	1.9356	2.6	1.8979	2.6	101.9
Norway	(NKr)	7.2718	+0.024	693 - 743	7.2895	7.2294	7.2573	2.4	7.2289	2.4	7.1172	2.1	95.7
Portugal	(Es)	174.590	+0.98	540 - 640	174.650	173.400	174.564	0.3	174.5	0.2	173.33	0.7	93.9
Spain	(Pta)	146.105	+0.63	070 - 140	146.150	145.270	146.06	0.4	145.885	0.6	144.71	1.0	77.0
Sweden	(SKr)	7.7411	+0.0301	386 - 436	7.7445	7.7024	7.7321	1.4	7.7127	1.5	7.6387	1.3	83.5
Switzerland	(SFr)	1.4409	+0.0034	404 - 414	1.4422	1.4350	1.4358	4.5	1.4249	4.4	1.3784	4.3	105.1
UK	(£)	1.6540	+0.0075	535 - 545	1.6555	1.6455	1.6527	0.9	1.6499	1.0	1.6373	1.0	100.2
Ecu	-	1.1302	-0.0036	298 - 306	1.1357	1.1295	1.1317	-1.5	1.1349	-1.6	1.1504	-1.8	-
SDR†	-	0.71864	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9996	-0.0003	995 - 996	0.9996	0.9995	-	-	-	-	-	-	-
Brazil	(R$)	1.0778	+0.0024	777 - 779	1.0782	1.0765	-	-	-	-	-	-	-
Canada	(C$)	1.3911	+0.0022	908 - 913	1.3921	1.3870	1.388	2.7	1.3822	2.5	1.3617	2.1	83.7
Mexico	(New Peso)	7.9575	+0.0505	550 - 600	7.9620	7.9470	8.066	-16.4	8.277	-16.1	6.7275	15.5	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	103.4
Pacific/Middle East/Africa													
Australia	(A$)	1.3311	-0.0059	307 - 316	1.3347	1.3300	1.3309	0.2	1.3303	0.2	1.326	0.4	93.8
Hong Kong	(HK$)	7.7425	+0.001	420 - 430	7.7435	7.7415	7.743	-0.1	7.7439	-0.1	7.7462	0.0	-
India	(Rs)	35.8050	-0.015	800 - 300	35.8370	35.7600	35.9425	-4.6	36.2275	-4.7	37.44	-4.6	-
Israel	(Shk)	3.4302	+0.0128	282 - 342	3.4423	3.4136	-	-	-	-	-	-	-
Japan	(Y)	114.680	+0.78	620 - 700	114.750	114.080	114.145	5.4	113.145	5.3	108.845	5.1	134.4
Malaysia	(M$)	2.5147	-0.001	142 - 152	2.5170	2.5115	2.5192	-2.1	2.5262	-2.1	2.5582	-1.7	-
New Zealand	(NZ$)	1.4592	+0.0043	582 - 603	1.4610	1.4578	1.46	-0.7	1.4624	-0.9	1.4725	-0.9	-
Philippines	(Peso)	26.3800	-0.005	500 - 100	26.4100	26.3500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7508	-	503 - 513	3.7515	3.7500	3.7515	-0.2	3.7525	-0.2	3.7571	-0.2	-
Singapore	(S$)	1.4273	+0.0019	268 - 278	1.4288	1.4252	1.4256	1.5	1.4218	1.6	1.4023	1.8	-
South Africa	(R)	4.5100	-0.002	090 - 110	4.5165	4.5070	4.5505	-10.8	4.63	-10.6	4.9325	-9.4	-
South Korea	(Won)	888.000	-0.5	000 - 000	891.800	885.400	-	-	-	-	-	-	-
Taiwan	(T$)	27.9250	-0.005	000 - 500	27.9590	27.8990	27.938	-0.5	27.945	-0.3	28.0375	-0.4	-
Thailand	(Bt)	26.0300	+0.135	300 - 300	26.1500	24.0000	26.255	-10.4	26.58	-8.5	27.405	-5.3	-

† SDR rate per $ for Jun 19. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jun 19: Base average 1990=100. The exchange rates printed in this table are also available on the internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

June 20	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.50	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.10	-	4.75
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.10	-	4.75
Germany	3	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.00
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.00
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.75
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.75
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.25	6.75	6.82
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.25	6.75	6.78
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	2.50	2.90
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	2.50	2.90
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	5.50	5.59	5.68	5.89	-	-	-
week ago	-	5.50	5.56	5.65	5.88	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jun 20	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
German Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	6 - [illegible]	6 - [illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible] - 5	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canadian Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japanese Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	94.14	94.14	-0.04	94.15	94.13	113,198	562,163
Dec	93.94	93.96	-0.18	93.97	93.94	107,047	429,143
Mar	93.87	93.88	-0.07	93.89	93.86	69,748	290,830

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	94.81	94.81	-	94.82	94.80	254	7,276
Dec	94.68	94.65	-0.01	94.66	94.65	30	352

All Open Interest figs. are for previous day

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jun 20		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.45	16.35	4.846	1.854	4738	5.450	20.34	488.4	408.7	21.65	4.030	1.691	3.891	2.797	320.7	2.475
Denmark	(DKr)	54.20	10	8.862	2.626	1.005	2568	2.954	11.02	264.7	221.5	11.74	2.185	0.917	2.109	1.516	173.8	1.341
France	(FFr)	61.16	11.28	10	2.963	1.134	2897	3.333	12.44	298.7	249.9	13.24	2.465	1.034	2.380	1.711	196.2	1.514
Germany	(DM)	20.64	3.808	3.375	1	0.383	977.8	1.125	4.198	100.8	84.35	4.469	0.832	0.349	0.803	0.577	66.20	0.511
Ireland	(I£)	53.94	9.951	8.819	2.613	1	2555	2.940	10.97	263.4	220.4	11.68	2.174	0.912	2.099	1.509	173.0	1.335
Italy	(L)	2.111	0.389	0.345	0.102	0.039	100	0.115	0.429	10.31	8.627	0.457	0.085	0.036	0.082	0.059	6.770	0.052
Netherlands	(Fl)	18.35	3.385	3.000	0.889	0.340	869.3	1	3.732	89.61	74.99	3.973	0.740	0.310	0.714	0.513	58.85	0.454
Norway	(NKr)	49.16	9.071	8.039	2.382	0.912	2329	2.679	10	240.1	200.9	10.65	1.982	0.831	1.913	1.375	157.7	1.217
Portugal	(Es)	20.48	3.778	3.348	0.992	0.380	970.1	1.116	4.165	100	83.68	4.434	0.825	0.346	0.797	0.573	65.67	0.507
Spain	(Pta)	24.47	4.515	4.001	1.186	0.454	1159	1.334	4.977	119.5	100	5.298	0.986	0.414	0.952	0.684	78.48	0.606
Sweden	(SKr)	46.18	8.521	7.551	2.238	0.856	2188	2.517	9.394	225.5	188.7	10	1.861	0.781	1.797	1.292	148.1	1.143
Switzerland	(SFr)	24.81	4.578	4.057	1.202	0.460	1175	1.352	5.047	121.2	101.4	5.372	1	0.420	0.965	0.694	79.58	0.614
UK	(£)	59.13	10.91	9.668	2.865	1.096	2801	3.223	12.03	288.8	241.7	12.80	2.383	1	2.301	1.654	189.6	1.463
Canada	(C$)	25.70	4.742	4.202	1.245	0.476	1217	1.401	5.227	125.5	105.0	5.565	1.036	0.435	1	0.719	82.42	0.636
USA	($)	35.75	6.596	5.846	1.732	0.663	1694	1.948	7.272	174.6	146.1	7.741	1.441	0.605	1.391	1	114.7	0.885
Japan	(Y)	31.18	5.753	5.098	1.511	0.578	1477	1.699	6.342	152.3	127.4	6.751	1.257	0.527	1.213	0.872	100	0.772
Ecu	-	40.40	7.455	6.607	1.958	0.749	1914	2.202	8.219	197.3	165.1	8.749	1.629	0.683	1.572	1.130	129.6	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Sep	0.5840	0.5824	-0.0019	0.5848	0.5807	26,780	82,177
Dec	0.5855	0.5862	-0.0019	0.5861	0.5855	17	862
Mar	-	0.5901	-0.0019	-	0.5885	2	123

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Sep	0.7027	0.7015	-0.002	0.7040	0.7007	18,221	33,537
Dec	0.7098	0.7092	-0.0019	0.7098	0.7088	35	786
Mar	-	0.7171	-0.0018	-	-	5	23

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Sep	0.8874	0.8826	-0.0059	0.8842	0.8809	20,636	49,135
Dec	0.8953	0.8942	-0.008	0.8953	0.8941	114	1,076
Mar	-	0.9059	-0.0061	-	-	2	107

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Sep	1.6354	1.6524	+0.0074	1.6540	1.6420	16,137	39,588
Dec	1.6470	1.6480	+0.0072	1.6500	1.6466	2	142
Mar	-	1.6438	+0.0072	1.6430	-	1	2

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jul	CALLS Aug	CALLS Sep	PUTS Jul	PUTS Aug	PUTS Sep
1.620	3.64	-	4.33	0.13	0.67	1.10
1.630	-	3.29	-	0.26	0.94	1.37
1.640	2.03	2.62	3.01	0.49	1.23	1.75

Previous day's vol., Calls 1,422 Puts 282 . Prev. day's open int., Calls 25,608 Puts 26,093

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Jul	CALLS Aug	CALLS Sep	PUTS Jul	PUTS Aug	PUTS Sep
0.570	1.11	-	1.69	0.13	0.34	0.47
0.575	0.75	1.10	1.38	0.26	0.50	0.65
0.580	0.45	0.83	1.09	0.46	0.72	0.87

Previous day's vol., Calls 467 Puts 3,516 . Prev. day's open int., Calls 9,324 Puts 17,767

UK INTEREST RATES

LONDON MONEY RATES

Jun 20	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	-	-	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills	-	-	[illegible]	[illegible]	-	-
Bank Bills	-	-	[illegible]	[illegible]	[illegible]	-
Local authority deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	[illegible]	[illegible]	-	-	-	-

UK clearing bank base lending rate 6½ per cent from Jun 6, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc.
Ave. tender rate of discount on Jun 13, 6.3110pc. ECGD fixed rate Stg. Export Finance. Make up day May 30, 1997. Agreed rate for period Jun 25, 1997 to Jul 25, 1997, Scheme III 7.78pc. Reference rate for period May 1, 1997 to May 30, 1997, Schemes IV & V 6.530pc. Finance House Base Rate 7pc from Jun 1, 1997

BANK OF ENGLAND TREASURY BILL TENDER

	Jun 20	Jun 13		Jun 20	Jun 13
Bills on offer	£200m	£200m	Top accepted rate	6.4176%	6.3373%
Total of applications	£1073m	£1549m	Ave. rate of discount	6.4037%	6.3110%
Total allocated	£200m	£200m	Average yield	6.5076%	6.4119%
Min. accepted bid	£98.400	£98.420	Offer at next tender	£200m	£200m
Allotment at min. level	93%	98%	Min. accept. bid 92 days	-	-

■ Pound in New York

Jun 20	Close	Prev. close
£ spot	1.6565	1.6485
1 mth	1.6553	1.6472
3 mth	1.6525	1.6445
1 yr	1.6405	1.6320

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Markets page in today's edition.

BASE LENDING RATES

	%		%		%
Adam & Company	6.50	Duncan Lawrie	6.50	●Singer & Friedlander	6.50
Allied Irish Bank (GB)	6.50	Exeter Bank Limited	7.50	●Smith & Williamson Secs	6.50
●Henry Ansbacher	6.50	Financial & Gen Bank	7.50	Scottish Widows Bank	6.50
Bank of Baroda	6.50	●Robert Fleming & Co	6.50	TSB	6.50
Banco Bilbao Vizcaya	6.50	●Guinness Mahon	6.50	United Bank of Kuwait	6.50
Bank of Cyprus	6.50	Habib Bank AG Zurich	6.50	Unity Trust Bank Plc	6.50
Bank of Ireland	6.50	●Hambros Bank	6.50	Western Trust	6.50
Bank of India	6.50	Heritable & Gen Inv Bk	6.50	Whiteaway Laidlaw	6.50
Bank of Scotland	6.50	C. Hoare & Co	6.50	Yorkshire Bank	6.50
Barclays Bank	6.50	Hongkong & Shanghai	6.50		
Brit Bk of Mid East	6.50	Investec Bank (UK) Ltd	6.50		
●Brown Shipley & Co Ltd	6.25	Julian Hodge Bank	6.50		
Citibank NA	6.50	●Leopold Joseph & Sons	6.50		
Clydesdale Bank	6.50	Lloyds Bank	6.50		
The Co-operative Bank	6.50	Midland Bank	6.50		
Coutts & Co	6.50	NatWestminster	6.50		
Cyprus Popular Bank	6.50	●Rea Brothers	6.50		
		Royal Bk of Scotland	6.50		

● Members of London Investment Banking Association
* In administration

OTHER STATISTICS

STOCK INDICES

	Jun 20	Jun 19	Jun 18	Jun 17	Jun 16	1997 High	1997 Low	Since comp. High	Since comp. Low
FTSE 100	4593.9	4653.7	4657.0	4692.2	4745.1	4783.1	4056.6	4783.1	986.9
FTSE 250	4485.0	4492.9	4516.2	4538.0	4557.1	4729.4	4462.0	4729.4	1379.4
FTSE 250 ex IT	4493.4	4501.1	4526.1	4548.8	4564.7	4773.8	4469.3	4773.8	1378.3
FTSE 350	2229.1	2253.2	2258.7	2268.7	2295.1	2312.8	2017.9	2312.8	664.5
FTSE SmallCap	2261.09	2265.17	2270.52	2279.82	2283.81	2374.20	2178.29	2374.20	1363.79
FTSE SmallCap ex IT	2240.89	2246.29	2252.55	2261.18	2263.36	2382.36	2190.80	2382.36	1363.79
FTSE All-Share	2187.93	2210.20	2213.76	2225.32	2249.67	2288.11	1989.78	2288.11	61.92
FTSE Fledgling	1276.70	1279.24	1282.22	1285.95	1288.46	1348.52	1223.49	1348.52	31.14
FTSE Eurotrack 100	2463.84	2455.60	2427.88	2446.48	2451.85	2483.84	1898.80	2483.84	900.45
FTSE Eurotrack 200	2461.40	2455.01	2437.50	2454.20	2471.83	2473.84	1947.11	2473.84	938.82
FT 30	2972.0	3015.1	3014.0	3024.4	3054.3	3077.4	2762.5	3077.4	49.4
FT Govt Securities	96.29	96.04	96.29	96.66	96.94	97.61	93.31	127.40	49.18
FT Fixed Interest	123.02	123.15	122.67	122.24	122.14	123.15	113.65	133.87	50.53
FTSE Gold Mines	1446.83	1493.13	1488.92	1512.88	1535.77	1907.49	1468.60	2828.73	922.16

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1997 High	1997 Low	Stock	Closing price p	+or-
156	Nil	9/7	15½pm	2pm	Century Inns	2pm	
205	Nil	-	19pm	14½pm	Pillar Props	15pm	

pm premium.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1997 High	1997 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§	F.P.	91.3	1200	782½	Aston Villa	797½		R8.8	1.8	1.4	43.8
	F.P.	14.1	102	42½	Caradon B	87½	+2½	-	-	-	-
*	F.P.	2,070	312½	270½	Gallaher	300	-1½	19.25	1.4	8.0	11.4
§140	F.P.	11.3	147½	98½	Heart of Midlthn	111½		-	-	-	-
§120	F.P.	10.3	127½	124½	†Highland Timber	124½	-3	-	-	-	-
100	F.P.	3.76	125	102½	†Integrated As Mg	125		-	-	-	-
§	F.P.	3.69	119½	112½	Longbridge Intl	117½		-	-	-	16.4
290	F.P.	6,253	357½	318½	Norwich Union	324½		L10.6	1.8	4.1	16.9
§185	F.P.	116.7	197½	195½	Powderject Pharm	197½		-	-	-	-
§	F.P.	69.2	227	209½	Royalblue Grp	209½	-½	1.5	2.6	0.9	53.2
§100	F.P.	7.87	120½	110½	†SBS Group	111½		12.4	2.0	2.7	19.6
§100	F.P.	22.5	112½	107	Topps Tiles	112½		-	-	-	11.8
§3	F.P.	5.04	4	3½	Versailles Group	3½		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

BANK RETURN

BANKING DEPARTMENT	Wednesday June 18, 1997	Increase or decrease for week
Liabilities	£	£
Capital	14,553,000	
Public deposits	1,130,533,516	-124,148,661
Bankers deposits	2,546,952,455	+138,846,951
Reserve and other accounts	3,156,347,983	-1,218,216,062
	6,848,386,954	-1,203,517,772
Assets		
Government securities	1,395,281,305	+19,325,000
Advance and other accounts	4,729,349,453	-1,216,159,301
Premise, equipment and other secs	718,243,121	+728,911
Notes	5,404,708	-7,403,302
Coin	108,367	-9,080
	6,848,386,954	-1,203,517,772
ISSUE DEPARTMENT		
Liabilities		
Notes in circulation	21,604,595,292	-32,596,698
Notes in Banking Department	5,404,708	-7,403,302
	21,610,000,000	-40,000,000
Assets		
Other Government securities	20,501,696,034	+2,092,061,285
Other Securities	1,108,303,966	-2,132,061,285
	21,610,000,000	-40,000,000

TRADITIONAL OPTIONS

First Dealings	June 16	Expiry	Sept 11
Last Dealings	June 27	Settlement	Sept 18

Calls: Aminex, Antonov, Calluna, Chelsea Village, Dana Wrts., Pan Andean, Park Foods, Petra Diamonds, Tusker Res., Calls and Puts: Abbey National, Tusker Res.

FTSE GOLD MINES INDEX

	Jun 20	% chg since 31/12/96	Mkt Cap $bn	% of Gold Mines	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	1446.83	-20.7	40.88	100.00	2.33	-	2130.93	1446.83
■ Regional Indices								
Africa (14)	1530.31	-28.0	9.10	22.70	5.76	34.47	2817.88	1530.31
Australasia (6)	1860.11	-25.1	4.37	10.89	3.11	18.77	2491.99	1860.11
North America (11)	1405.81	-16.7	26.63	66.41	1.03	57.92	1884.08	1335.84

 Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92. † Partial.

UK GILTS PRICES

	Notes	Price £	Wk % +/-	Amnt £m	Interest due	Last xd	City line
Shorts" (Lives up to Five Years)							
Treas Cnv 7pc 1997‡‡		100⅛	-	1,886	Feb Aug	28.1	4497
Treas 8¾pc 1997‡‡		[illegible]	-1	5,550	Mr1 Se1	20.2	1341
Exch 15pc 1997		[illegible]	-2	830	Ap27 Oc27	17.4	1269
Exch 9¾pc 1998		[illegible]	-1	3,550	Jy19 Ja19	9.1	1273
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Notes	Price £	Wk % +/-	Amnt £m	Interest due	Last xd	City line
Conv 9½pc 2004		113¾	-.8	3,412	Ap25 Oc25	16.4	1246
Treas 6¾pc 2004‡‡		98	-.8	8,500	My26 No26	15.5	3541
Conv 9½pc 2005		[illegible]	-.8	4,842	Oc18 Ap18	8.4	1247
Exch 10½pc 2005		[illegible]	-.5	28	Mr20 Se20	11.3	-
Treas 12½pc 2003-5		[illegible]	-.8	2,280	My21 No21	12.5	1295
Treas 8½pc 2005‡‡		[illegible]	-.6	10,373	Ja7 De7	29.5	4948
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Notes	Price £	Wk % +/-	Amnt £m	Interest due	Last xd	City line
Index-Linked (b)							
4⅝pc '98‡‡	(135.6)	114½	-	800	Ap27 Oc27	17.4	1753
2½pc '99		181⅛	-1	2	My22 No22	13.5	-
2½pc '01	(78.3)	185⅞	-1	2,150	Mr24 Se24	13.3	1316
2½pc '03	(78.8)	182⅜	-2	2,300	My20 No20	9.5	1317
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Other Fixed Interest

[illegible]							

(b) Figures in parentheses show RPI base for indexing. [illegible]

• "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Weekly percentage changes are calculated on a Friday to Friday basis.

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INSURANCE - Cont.

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Cont.

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PHARMACEUTICALS - Cont.

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TEXTILES & APPAREL - Cont.

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

GUIDE TO LONDON SHARE SERVICE

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Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Dividend covers are calculated on a "net" basis.

Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

† Interim since increased or resumed
‡ Interim since reduced, passed or deferred
♦ Figures or report awaited
♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
♣ Free annual/interim report available, see details below.
‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
# Price at time of suspension
¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
♦ Merger bid or reorganisation in progress
§ Forecast dividend; cover based on earnings updated by latest interim statement.
♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimate. c Cents. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1996-97. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1997. K Dividend based on prospectus or other official estimates for 1996. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1997-98. N Dividend is paid in whole or part as a FID (Foreign Income Dividend). Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

U.S. Advisors (Guernsey) Limited

US III Stat Fac NV & Max Rec	$108.13	112.48	-	48088

UTI (Guernsey) Limited

India Access Ltd	$11.08		-	-
Indian Access Ltd 'C' Shares			-	-

Yamaichi Capital Mngt (Guernsey) Ltd

Yamaichi ISS Fund	$8.58	-	48991
Yamaichi Japan Sml Stock Fd Ltd	$6.13	-	47336
Yamaichi Dynamic Asia	$10.23	-	52179
Yamaichi Dynamic Taiwan	$12.36	-	54080
Yamaichi Pure China Fd	$14.87	-	54081
Yamaichi Japan Convert Fd	SFr11.62	-	54082

IRELAND (SIB RECOGNISED)

AIB Fund Management Ltd

BT Fund Managers (Ireland) Ltd (u)

Lazard Investment Funds Ltd

Argenta European Hedge Fund plc

Asia Dynamic Growth Fund Plc

Asia Small Cos Growth Fund (b)

Asian Diversified Equity Fund Plc

Asian Emerging Markets Fund Plc

Asian Gateway Fund Plc

Asian Growth Fund Plc

American F	$5.247	0.00	54425
Asia Pacific F	257.9	0.00	44536
Asia Pacific F	$4.342	0.00	54426
China Opportunities F	265.7	0.00	44579
China Opportunities F	$4.381	0.00	54427
European Growth F	362.4	0.00	44080
European Growth F	DM10.32	0.00	54428
Global Growth F	188.4	0.00	42998
Japan Growth F	133.8	0.00	44618
Japan Growth F	$2.208	0.00	54429
India Opportunities F 5	$11.07	0.00	-
Sterling High Yield F	128.5	5.14	48889
Technology F	$5.539	0.00	48112
UK Equity Income F	193.3xd	2.71	48100
World Bond F	128.2	5.31	41317

Berkshire Korea Fund Plc

NAV	$1.58	-	55028

Blackstone Franks Managers Ireland Ltd

Blackstone Franks International Fund	£9.44	9.84	-	47353

Bordier Invest (Ireland) Ltd

Invest Ysrm Fd NAV Jun 20	$57.09	-	48005

Buchanan Asset Management (Ireland) Ltd

Japan Performance B	$8.6398	-	47894
UK Performance	£11.8049	-	47895

CFP Interest Rate Arbitrage Fund Plc

NAV	$11.18	0.00	55027

Scottish Value Management (Ireland) Ltd (u)

St Stephen's Green, Dublin 2 00 3531 4757001

UK Growth	£2.88	2.96	-	48830
European Growth	£3.35	3.41	-	48831
Broker Value	£1.32		-	43775
Relative Value H	£1.0605		-	45585

Singer & Friedlander Inv Funds Ltd (u)

21 New Street, Bishopsgate, EC2M 4HR 0171-626 5226

UK Equity Income 4½	105.93	4.86	59208

Calplus Fund

NAV	$109.50	-	58512

Capital Vision Fund Plc

NAV	$3.55	-	58516

Chemical Ireland Fund Administrators Ltd

Nikko East Asia Class A	$11.3703	-	58505
Nikko East Asia Class B	$11.0448	-	58509
Taj Performance	$7.98	-	53637

Hambros Fund Managers (Ireland) Ltd

Intl Financial Services Ctre, Dublin 1

Asian Korea Advantage	$10.11	10.62

Henderson Crosthwaite Investment

32 St Mary at Hill, London, EC3P 3AJ

European	DM7.566
Global Managed	£1.4002
Income F 6	£1.2267
North American	$1.5585
Pacific & Far East	$1.1761
UK Growth	£1.4689

HSBC UK Equity Plus III Plc

HSBC UK Equity Plus IV Plc

HSBC UK Equity Plus V Plc

Value Express Fund Plc

Yamaichi Samsung Dynamic Korea Fund

Yuki Korea Fund

Yuki Taiwan Fund

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

TSB Fund Managers (CI) Ltd

JERSEY (REGULATED)(**)

IRELAND (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

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LUXEMBOURG (REGULATED)(**)

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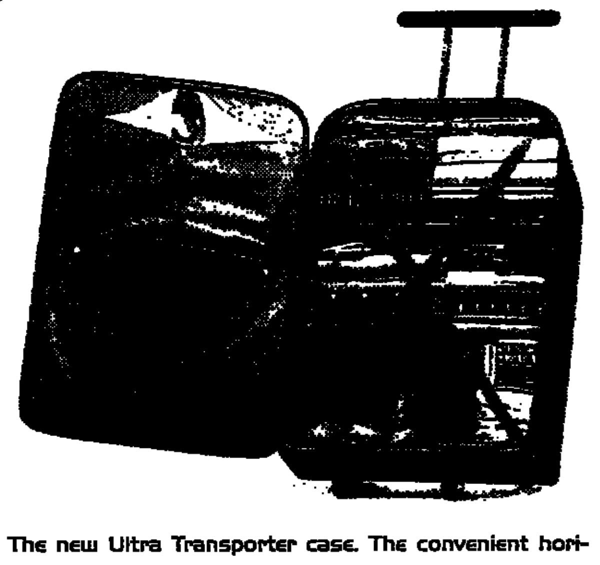
	Selling Price	Buying Price	Yield Gross	City-Line
Old Mutual International (Isle of Man) Ltd				
Victory Hse, Prospect Hill, Douglas, IoM 01624 683683				
Distribution Fund-Deferred	63.03		-	53194
Distribution Fund-Quarterly	52.30		5.44	53195
Distribution Fund-Half Yearly	52.59		5.54	53196
European Equity	175.75	186.97	-	44915
Far Eastern Equity	$2.0372	2.1905	-	44916
North American Equity	$1.7556	1.8877	-	44917
UK Equity	191.40	205.80	-	44918
UK Gilt & Fixed Int	124.77	134.16	-	44919
Dollar Deposit	$0.7836	0.8425	-	44920
Sterling Deposit	111.49	119.88	-	44921
International Managed	155.67	167.38	-	44923
PanEuroLife societe anonyme				
35 Av Marie-Therese, Luxembourg 00 352 456730				
French Balanced Jun 18	FFr7898.85		-	50225
German/Benelux Jun 18	DM3750.58		-	50226
Global Equities Jun 18	$1602.88		-	50227
UK Secure Gth Jun 18	£805.49		-	50228
US Secure Growth Jun 18	$1407.48		-	53197
Intl Real Estate Jun 18	Ecu1746.57		-	50229
Fund of Funds Jun 18	Ecu1526.93		-	50230
Premier Life				
1 Rue Emile Bian, Luxembourg Tlx 2888 Tel 4050751				
Davenport Chdwck £ Fd	£1.310	1.410	-	45918
Matheson £ Pens	£1.100	1.170	-	45921
Matheson $ Pens	$1.060	1.120	-	45922
Argent Blncd	£16.550	17.710	-	46311
Argent Equity Gth	£19.800	21.190	-	46312
OFS Aggressive $	$1.46	1.46	-	46813
OFS Mngd Growth $	$1.98	1.99	-	46812
OFS Dir Balanced Port	$1.60	1.61	-	46810
GH 10	SFr1.85	1.99	-	47415
LX 10	$1.82	1.98	-	47416

	Selling Price	Buying Price	Yield Gross	City-Line
Apax Bank & Trust Company				
GCM Intl Convertible (OEIC)	$1269.80		-	-
GCM Intl Fixed Income (OEIC)	$1143.54		-	-
GCM Intl Equity (OEIC)	$135.79		-	-
GCM Intl High Yield	$1000.54		-	-
Aravis Capital Advisers LLC				
Aravis Clipper Ltd	$134.21		-	47193
Arc Investment Company Ltd				
Rainbow	$584.74		-	47795
Arisaig Partners (BVI) Ltd				
Arisaig Asian Small Companies Fund				
NAV	$10.75		-	-
Arrofield-Bermuda Investment Management Inc				
Royce Hedge Fd Ltd	$642.3081		-	-
Arnhold and S. Bleichroeder, Inc				
Asia Pacific Capital Strategies Fund				
NAV Jun 16	$7.9823		-	54868
Asia Pacific Securities Corp Ltd				
Asian Convertibles & Income Fd (Cayman)				
NAV Jun 18	$13.67		-	44420
Atlantico Investment Ltd				
Atlantic Fund Management (Guernsey) Ltd				
Atlas Management Limited				
Managed	$11.20	11.78	-	47260



The new Ultra Transporter case. The convenient horizontal shelving. The incredible stability and fantastic manoeuvrability. For the traveller without a worry in the world. Samsonite WORLDPROOF

	Selling Price	Buying Price	Yield Gross	City-Line
Global Asset Management - Contd.				
SEC Registered Funds				
GAMerica Capital	$11.79		-	58523
GAM Asian Capital	$9.74		-	58522
GAM Europe	$13.64		-	47981
GAM Global A	$17.29		-	45110
GAM Global D	$17.13		-	49239
GAM International A	$26.86		-	45114
GAM International D	$26.85		-	49245
GAM Japan Capital	$11.07		-	[illegible]
GAM North America	$16.70		-	47982
GAM Pacific Basin A	$18.48		-	45122
Jardine Fleming Unit Trusts Ltd - Contd.				
JF Capital Guaranteed Master Series				
Hong Kong Index Sub Fund	$10.64		-	49158
Tokyo Index Sub Fund	$9.15	9.83	-	49144
New York Index Sub Fund	$10.10		-	49145
DEM Bull Sub Fund	$8.55		-	49150
DEM Bear Sub Fund	$11.63		-	49153
Yen Bull Sub Fund	$9.18	9.52	-	49146
Yen Bear Sub Fund	$11.97		-	49147
USD Account	$108.07	114.34	5.24	46797

OTHER OFFSHORE FUNDS

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Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

PACIFIC

AFRICA

NORTH AMERICA

INDICES

	Jun 20	Jun 19	Jun 18	1997 High		1997 Low	
Argentina							
General(29/12/77)	23124.18	23177.89	23026.93	23177.89	18/6	18237.37	2/1
Australia							
All Ordinaries(1/1/80)	2712.5	2693.3	2573.4	2712.80	20/6	2352.29	1/4
All Mining(1/1/80)	940.4	944.1	946.3	987.18	24/2	878.40	16/4
Austria							
Credit Aktien(30/12/84)	411.96	411.01	408.82	431.07	5/6	374.40	9/1
Traded Index(2/1/91)	1302.47	1299.96	1297.47	1319.70	27/5	1130.22	9/1
Belgium							
BEL20(1/1/91)	2361.84	2345.60	2347.55	2408.36	13/6	1871.05	2/1
Brazil							
Bovespa(29/12/83)	12121.0	12205.0	12206.0	12206.60	18/6	6956.69	2/1
Canada							
Metals Minls(1975)	5321.78	5356.95	5404.95	5891.75	10/3	4945.98	11/4
Composite(1975)	6511.40	6512.70	6498.10	6550.60	13/6	5579.38	14/4
Portfolio§§(4/1/83)	3299.87	3297.29	3293.08	3339.96	13/6	2846.02	11/4
Chile							
IGPA Gen(31/12/80)	5759.92	5758.05	5731.80	5943.79	13/6	4912.42	2/1
Denmark							
CopenhagenSE(3/1/83)	591.88	589.73	588.60	591.88	20/6	470.14	2/1
Finland							
HEX General(28/12/90)	(c)	3128.39	3113.27	3143.51	13/6	2483.28	3/1
France							
SBF 250(31/12/90)	1811.27	1801.19	1806.17	1838.29	16/5	1533.19	2/1
CAC 40(31/12/87)	2757.10	2739.69	2751.74	2808.52	13/6	2256.97	2/1
Germany							
FAZ Aktien(31/12/58)	1289.91	1276.55	1271.10	1289.91	20/6	986.21	2/1
Commerzbank(1/12/53)	3798.80	3755.90	3733.30	3798.80	20/6	2875.80	2/1
DAX‡(30/12/87)	3788.27	3749.27	3730.27	3788.27	20/6	2848.77	2/1
Greece							
Athens SE(31/12/80)	1500.37	1543.25	1541.48	1727.78	23/5	954.54	2/1
Hong Kong							
Hang Seng(31/7/64)	15154.36	14506.49	14203.89	15164.36	20/6	12055.17	3/4
India							
BSE Sens.(1979)	4093.04	4089.98	4092.50	4089.98	19/6	3225.24	2/1
Indonesia							
Jakarta Comp.(10/8/82)	712.22	708.44	710.78	712.60	26/2	631.27	15/4
Ireland							
ISEQ Overall(4/1/88)	3350.49	3328.89	3332.35	3358.48	13/6	2725.07	2/1
Italy							
Banca Comm Ital(1972)	822.45	819.48	797.16	822.45	20/6	642.55	2/1
MIB General(2/1/97)	1237.0	1232.0	1199.0	1237.00	20/6	991.00	2/1
Japan							
Nikkei 225(16/5/49)	20385.54	20507.85	20497.85	20681.07	16/6	17303.65	10/1
Nikkei 300(1/10/82)	295.85	295.80	298.09	298.50	16/6	251.04	27/1
Topix(4/1/68)	1530.24	1530.54	1531.71	1542.19	16/6	1320.82	10/4
2nd Section(4/1/68)	1841.68	1838.98	1840.92	1841.68	20/6	1518.50	15/4
Malaysia							
KLSE Comp.(4/4/86)	1097.54	1097.48	1088.12	1271.57	25/2	1041.27	15/5
Mexico							
IPC(Nov 1978)	(u)	4353.67	4281.52	4353.67	19/6	3359.46	2/1
Netherland							
CBS TtlRtnGen(End 83)	1012.4	1005.2	997.9	1012.40	20/6	730.80	2/1
CBS All Shr(End 83)	585.0	580.8	578.6	585.00	20/6	429.00	2/1
New Zealand							
Cap. 40(1/7/86)	2423.60	2407.50	2400.21	2448.21	20/1	2207.48	1/4
Norway							
Oslo SE(Ind)(2/1/83)	1986.57	1980.08	1959.97	1990.80	6/6	1639.83	2/1
Philippines							
Manila Comp(2/1/85)	2881.73	2905.97	2823.35	3447.60	3/2	2469.38	20/5
Portugal							
BVL 30(4/1/93)	3144.70	3148.65	3154.64	3170.84	16/6	2165.57	2/1
Singapore							
SES All-S'pore(2/4/75)	489.35	491.70	489.04	573.03	17/2	479.94	29/4
South Africa							
JSE Gold(28/9/78)	1027.4♥	1061.3	1086.7	1588.18	27/2	1027.40	20/6
JSE Ind.(28/9/78)	8511.5♥	8433.8	8431.9	8568.70	6/5	7859.50	2/1
South Korea							
KoreaCmpEx**(4/1/80)	770.22	770.95	773.21	792.29	17/6	611.06	7/1
Spain							
Madrid SE(30/12/85)	589.72	582.52	577.80	589.72	20/6	434.54	2/1
Sweden							
AffarsvarldsGen(1/2/37)	(c)	2952.6	2930.5	2954.00	16/6	2378.50	2/1
Switzerland							
SMI Index(1/7/88)	5561.8	5510.3	5405.0	5561.80	20/6	3822.80	7/1
SPI General(1/6/87)	3518.12	3489.44	3430.09	3518.12	20/6	2508.22	6/1
Taiwan							
WeightedPr.**(30/6/66)	8882.13	8836.29	8713.49	8882.13	20/6	6844.76	6/1
Thailand							
Bangkok SET(30/4/75)	480.25	484.77	482.94	858.97	22/1	464.77	19/5
Turkey							
IMKB Nat 100(1986)	1642.00	1601.00	1565.0	1675.69	5/6	985.00	2/1
WORLD							
MS Capital Intl(1/1/70)	942.1*	941.7	935.5	942.10	20/6	794.60	14/4
CROSS-BORDER							
Eurotrack 100(26/10/90)	2463.84	2465.60	2427.88	2463.84	20/6	1899.89	2/1
FTSE E 100(26/6/90)	2077.71	2073.02	2063.77	2092.86	13/6	1582.89	2/1
HSBC JC Dsgs(31/12/88)	(u)	415.57	408.79	428.46	20/1	381.54	29/4
ING Bmgs Emrg(7/1/92)	187.63	186.63	186.55	187.63	20/6	158.34	3/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
■ CAC-40 (200 x Index)							
Jun	2719.0	2755.0	+25.0	2767.0	2711.0	14,387	33,179
Jul	2718.0	2753.0	+25.0	2762.0	2709.0	705	8,985
■ DAX							
Sep	3805.0	3818.0	+12.0	3828.0	3768.5	20,861	79,494
Dec	3834.0	3845.5	+6.0	3851.5	3834.0	5	1,727
■ OMX							
Jun	-	2338.00	-	-	-	-	18,697
Jul	-	2342.25	-	-	-	-	8,200
■ SOFFEX							
Jun	5524.0	5551.2	+38.0	5560.0	5516.0	2,504	17,870
Jul	5537.0	5569.5	+55.5	5570.0	5521.0	5,850	13,911

** Sat June 14: Taiwan Weighted Price 8502.18; Korea Comp Ex 791.97. Base values of all indices are 100 except: Australia All Ord and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, SPI, Euro Top-100, ISEQ Overall, Toronto Comp./Met & Mins. DAX – all 1,000; SMI - 1500; JSE Gold – 255.7; JSE 25 Ind – 264.3; IMKB Nat 100 - 1; NYSE All Common – 50; Stand & Poor's – 10 and Amex Comp - 550. §§ Montreal. ◆ Toronto (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Jun 20 - 3788.54 +10.98. † Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ◆ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

US INDICES

Dow Jones	Jun 20	Jun 19	Jun 18	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	7796.51	7777.06	7718.71	7796.51 (20/6)	6391.69 (11/4)	7796.51 (20/6/97)	41.22 (8/7/32)
Home Bonds	103.41	103.06	103.04	103.63 (19/2)	101.09 (14/4)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2758.62	2732.76	2738.31	2758.62 (20/6)	2222.07 (2/1)	2758.62 (20/6/97)	13.23 (8/7/32)
Utilities	226.04	226.96	224.65	240.05 (22/1)	209.47 (25/4)	256.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 7868.44 (7834.51) Low 7733.63 (7697.45) (Theoretical◆)
Day's high 7834.08 (7810.54) Low 7777.08 (7718.44) (Actual◆)

Standard and Poors	Jun 20	Jun 19	Jun 18	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	898.70	897.99	889.06	898.70 (20/6)	737.01 (2/1)	898.70 (20/6/97)	4.40 (1/6/32)
Industrials♥	1054.79	1053.72	1042.98	1054.79 (20/6)	865.42 (11/4)	1054.79 (20/6/97)	3.52 (30/6/32)
Financial	104.16	104.16	103.17	104.16 (19/6)	80.75 (2/1)	104.16 (19/6/97)	7.13 (4/9/74)
NYSE Comp.	467.84	467.76	463.41	467.84 (20/6)	389.47 (11/4)	467.84 (20/6/97)	4.54 (25/4/42)
Amex Comp.	623.27	628.30	625.97	630.10 (13/6)	541.20 (28/4)	630.10 (13/6/97)	524.20 (16/7/96)
NASDAQ Cmp	1447.10	1447.14	1432.43	1447.14 (19/6)	1201.00 (2/4)	1447.14 (19/6/97)	54.87 (3/10/74)

■ RATIOS

	Jun 13	Jun 6	May 30	Year ago
Dow Jones Ind. Div. Yield	1.64	1.70	1.73	2.19
	Jun 18	Jun 11	Jun 4	Year ago
S & P Ind. Div. yield	1.59	1.62	1.69	1.87
S & P Ind. P/E ratio	24.27	24.13	23.32	22.22

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Ph Morris	18,231,300	45⅝	-1⅜
Ikon Office	8,012,800	22¾	-9¼
GEC	7,720,800	67⅞	+¼
Exxon	6,097,800	63⅝	+⅞
IBM	6,804,400	89⅞	+⅛
Wal-Mart	5,925,900	33¾	+⅝
Merck	5,748,100	100⅛	+½
Coca Cola	5,494,600	71¼	-⅜
Ford Motor	5,092,900	38⅝	+⅛
Hewlett-Pkd	5,087,500	55	+1⅛

■ TRADING ACTIVITY

● Volume (million)	Jun 20	Jun 19	Jun 18
New York SE	656.469	547.119	491.683
Amex	28.818	27.009	22.822
NASDAQ	(u)	662.409	598.940
NYSE			
Issues Traded	3,386	3,374	3,364
Rises	1,109	1,742	1,198
Falls	1,495	790	1,300
Unchanged	782	842	866
New Highs	288	368	229
New Lows	15	14	21

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
■ S&P 500							
Sep	899.05	904.85	-2.65	912.40	904.00	83,331	174,657
Dec	918.70	914.35	-2.90	921.30	916.30	327	4,095
■ Nikkei 225							
Sep	20530.0	20470.0	+30.0	20570.0	20380.0	15,079	156,409

Open Interest figures for previous day.

AUSTRALIA (Jun 20 / Aus$)

TORONTO (Jun 20 / Can $)
4 pm close

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■ TOKYO - MOST ACTIVE STOCKS: Friday, June 20, 1997.

	Stocks Traded	Closing Prices	Change on day
Fujitsu Ltd	14.6m	1,570	+40
Sakura Bank	7.6m	864	+23
Hitachi	7.4m	1,330	+20
Kawasaki Steel	5.2m	348	-7
Nippon Steel	4.7m	350	+6
Snow Brand Milk	4.5m	599	+2
NEC Corp	4.3m	1,850	
Honda Motor	4.2m	3,210	-30
Matsushita El Ind	4.1m	2,250	-10
Nisshin Steel	4.1m	303	+13

4 pm close June 20

NEW YORK STOCK EXCHANGE PRICES

- A -

1997 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
32⅞	24¼	AAR	0.48	1.5	24	785	31⅝	31	31½	+⅛
43¼	33⅛	AMP	1.04	2.5	33	7366	42⅛	41½	41½	-¼
103¼	78¼	AMR			7	7808	95¼	93¾	94⅞	+1⅝
37⅝	31½	ASA	1.20	3.9	20	540	31⅝	d31⅛	31⅛	-⅜
67⅛	40¾	AbbtL	1.08	1.6	26	17267	u67⅝	66⅞	66¾	+⅛
18⅝	14⅛	AbitibiPr	0.40	2.3	9	20	17¾	17¾	17¾	
20	17⅞	ABM Ind	0.40	2.1	17	481	19⅛	18½	19	
23	17¾	Acpincelo			11	247	22¼	21⅞	22¼	+⅛
70⅞	56⅛	ACE Ltd	0.88	1.3	11	542	70¼	69⅞	69⅞	-⅜
10¾	10	ACM Gvt In x	0.90	8.7	11	288	10½	10⅜	10⅜	
7¾	7	ACM GvOpp x	0.63	8.4		61	7⅝	7½	7½	-⅛
9⅞	9¼	ACM Mgn x	0.90	9.2		309	u9⅞	9¾	9¾	
10⅞	6¼	Acme Elect				124	6⅞	6⅝	6⅞	
20	13	Acme Mills				222	16¾	16⅜	16⅝	-⅜
19¾	14	ACNielsen			35	1420	19⅝	19⅛	19¼	-⅜
40	27¼	Acordia	0.80	2.0	19	245	39⅞	39¾	39⅞	-⅛
29¾	21⅛	Acuson				1469	23⅞	23½	23⅞	+⅛
22⅞	19⅜	Adams Expr	0.55	2.4	1	146	u22⅞	22¾	22¾	-⅛
48½	24⅞	AdvMic				15466	37⅝	36⅞	36⅞	-1
27½	10⅜	Advest Grp	0.12	0.5	18	629	24¾	24⅛	24¼	-⅛
16½	11⅜	Advo Inc			19	409	16⅜	16¼	16⅜	+⅛
78⅝	61⅛	Aegon	1.31	1.8	20	5046	71¾	70⅛	71¾	+1⅛
5⅛	3⅛	Aeroflex				903	4⅛	3⅞	4⅛	+¼
46⅞	33	Aero-Y	0.80	1.7	14	1354	48	47½	48	
74¾	46	AES Corp				20	71⅞	71⅞	71⅞	-⅛
112⅞	73	Aetna	0.80	0.7	60	4719	109⅞	108⅛	108⅛	-1⅜

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

Continued on next page

4 pm close June 20

NYSE PRICES

Continued from previous page

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. s/e-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
Dealings suspended.

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NASDAQ NATIONAL MARKET

4 pm close June 20

AMEX PRICES

4 pm close June 20

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Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$4.25		19780	8.25	4.125	Innogenetics	US$11.5	+0.125	3080	12.75	10.375
Arnock Systems	US$10.375		33500	11.125	9.5	Mercer Intercntl.	US$10		0	11.75	8.125
Chemunex	FFr15		0	18	14	PixTech	US$4		0	6.125	3.875
Dr Solomon's ADS	US$22.875	+0.625	2100	26.5	16.875	Schoeller-Bleckmann	Sch859		144690	938	900
Esprit Telecom ADS	US$8		0	12.25	5.375						

Prices for 20/6/97. Please note that mid prices are now used to calculate highs and lows.
Information about EASDAQ can be found on the Web site at: HTTP://WWW.EASDAQ.be
EASDAQ offices are located in Brussels (Tel. 32-2 / 227 65 20) and in London (Tel. 44-171 / 489 9990).

FT GUIDE TO THE WEEK

MONDAY 23

Hong Kong prepares..

Hong Kong enters its final week under British sovereignty with a flurry of preparations for the handover. The territory's legislative council starts its final sessions today, before being disbanded and replaced by a Beijing-backed body on July 1. The royal yacht Britannia arrives in preparation for the departure of Mr Chris Patten, the territory's last governor. Mr Patten will leave on the Britannia after Hong Kong returns to China on the stroke of midnight on June 30. The governor will accompany Prince Charles, who will represent Britain at the handover ceremonies.

...Taiwan exercises

Taiwan will stage military exercises (to June 24) in a show of firepower on the eve of Hong Kong's transfer to Chinese sovereignty, despite a US request to cancel the plans. Taiwan has repeatedly said the drills were unrelated to the handover despite the sensitive timing, but a military spokesman confirmed the war games were intended to boost public confidence. Taiwan is expected to show off new high-technology weapons, including F-16 and Mirage 2000-5 fighters and radar-evading Lafayette-class "stealth" frigates bought from France. Beijing has regarded Taiwan as a renegade province but Taipei has ruled out unification until China introduces democracy.

Food for thought

The UN Codex Alimentarius Commission, which sets international food safety standards, holds its 22nd session in Geneva (to June 28). The 150-plus member governments will consider a controversial proposal to allow use of a genetically-engineered growth hormone to increase milk production in cows. This is opposed by consumer organisations as unnecessary and possibly unsafe. US nutrition groups are concerned by proposals they claim could weaken US food safety standards, including the approval of unpasteurised dairy products. The commission's standards are important because under international trade rules higher standards must be justified scientifically or risk challenge as a protectionist device.

Transport conference

Further development of trans-European networks and the use of new technology to improve transport systems are two of the issues to be discussed at the Third Pan-European Transport Conference in Helsinki which starts today. (to June 25). The conference, organised by the European Parliament and the European Commission, is expected to be attended by 1,000 representatives from 50 countries. It will also review developments in transport since the second conference in Crete in 1994 and will consider how to link the EU's trans-European transport network with infrastructure improvements in central and Eastern European states, the new Independent States and the Mediterranean basin.

Policemen keep an eye on a children's parade near the Chinese border as Hong Kong prepares for the handover.

Korean president in US

Mr Kim Young-sam, the South Korean president, travels to North America in his first overseas trip since his administration was shaken by corruption scandals this year. He will attend a special UN General Assembly session on the environment before going to Mexico to met its president, Mr Ernesto Zedillo. He is expected to discuss the deteriorating situation in North Korea with US and Japanese leaders while in New York. The trip is seen as an effort by Mr Kim to help restore his government's reputation following the arrest of his son this month for influence-peddling.

Western Sahara talks

Morocco and the Polisario movement, struggling for the independence of Western Sahara, meet in Lisbon for three days of talks at the invitation of UN secretary General Kofi Annan. Mr James Baker, the former US secretary of state who is Mr Annan's personal envoy, has said the talks may be the last real chance of finding a solution to the area's problems. The UN has been trying for years to organise a referendum on whether Western Sahara should be incorporated into Morocco or become independent. But the referendum, part of a UN peace plan, has been repeatedly postponed because of disagreement over whom should be eligible to vote. Algeria and Mauritania are attending the talks as observers.

Tennis

Wimbledon championships (to July 6).

FT Survey

Liechtenstein

TUESDAY 24

The fate of Nazi loot

Geneva is the venue for a two-day conference, organised by the US-based Simon Wiesenthal Centre, on the fate of Nazi loot and its restitution. The conference will bring together politicians, academics, lawyers and clerics from Europe, Israel, the US and Latin America. Switzerland has been the focal point of the push by world Jewish groups to find and restore property stolen by the Nazis from Jews and other Holocaust victims. Other countries are also implicated, including the former Allies. US Senator Alfonse D'Amato, scourge of the Swiss, is due to open the conference.

Japanese abroad

Japanese government leaders begin a series of overseas visits. Mr Ryutaro Hashimoto, the Japanese prime minister, delivers a speech at the United Nations General Assembly session on environment and then begins a five-day visit to the Netherlands and Norway. Foreign minister Mr Yukihiko Ikeda meets Mr Javier Solana, the Nato secretary-general, in Brussels, while Mr Hiroshi Mitsuzuka, Japan's finance minister, arrives in Beijing for four days of talks with Chinese leaders.

FT Surveys

Business Books, India

WEDNESDAY 25

Fit for a princess

A collection of dresses owned by Diana, Princess of Wales, are to be auctioned by Christie's in New York. The sale of the 80 dresses will be conducted on a non-profit making basis on behalf of the Royal Marsden Hospital Cancer Fund and Aids Crisis Trust. US cancer and Aids charities will also benefit. The dresses date from the years during which the princess made official appearances in the UK and state visits all over the world. Most of the garments were the creation of British designers and by far the largest group of dresses in the collection is by Catherine Walker.

Opec may warn on prices

The Organisation of Petroleum Exporting Countries begins its summer meeting in Vienna amid a new bout of weakness in world oil markets. Industry analysts do not expect the oil ministers to make any radical adjustments to the group's production ceiling. There may, however, be a public warning to members producing well beyond their quotas to rein in their output if prices weaken further. Oil prices reached a high of around $25 a barrel in January, but they have since slid steadily to their current level of around $18 a barrel.

Trade tops agenda

EU-Japan summit takes place in the Hague. Trade issues, notably European-led calls for more deregulation in the Japanese economy, will feature prominently. Both sides will also discuss the follow-up to the summit of leading industrialised nations in Denver. The EU-Japan summits are aimed at forging closer co-operation between Europe and Asia, partly to balance the political and economic pre-eminence of the US.

Outlook for Japan

The Bank of Japan is due to publish its widely-watched *tankan*, the quarterly survey of business confidence and economic conditions. The survey is regarded as a vital determinant of monetary policy. The outlook for the April-June quarter is expected to show weak sentiment among large manufacturers and non-manufacturers, indicating that Japan's economic recovery is still fragile.

FT Surveys

Romania, Mozambique

THURSDAY 26

Investment forum

The Crans-Montana forum, like the better-known World Economic Forum, brings together top politicians and business leaders for talks at a Swiss mountain resort. Investment in eastern Europe and in countries on Europe's perimeter - central Asia, North Africa and the Middle East - is the focus of the four-day forum. The guest of honour will be Rafik Al-Hariri, Lebanon's prime minister. Company executives pay handsomely for the opportunity to meet politicians responsible for infrastructure contracts worth billions of dollars in such areas as energy, roads, ports and telecommunications.

FT Survey

R&D Scoreboard (UK only)

FRIDAY 27

EU focus on enlargement

The Dutch presidency will present the new treaty of Amsterdam to 10 countries from central and eastern Europe who want to join the EU, as well as fellow candidates Cyprus and Turkey. The meeting is the first chance for the putative members to react to the failure last week of EU leaders to agree on reforms of institutions and decision-making which many believe raises a new hurdle to enlargement. The US is believed to have lobbied heavily for Turkey to be given a seat at the meeting, even though the EU has made clear Turkish membership is not realistic in the near future.

Meetings en masse

More than 1,000 Japanese companies will hold their annual shareholders' meetings at a time of a growing number of scandals over links between corporate racketeers, or "sokaiya," with Japanese leading banks and securities houses. Sokaiya commonly threaten to disrupt shareholders' meetings unless they receive pay-offs.

FT Survey

Derivatives

SATURDAY 28

Taipei peace rally

Taiwanese political groups are due to stage a mass peace rally shortly before Hong Kong's transfer to Chinese sovereignty to demonstrate opposition to unification with Beijing. The rally will be held in Taipei and organisers expect tens of thousands of participants. The event is intended to show Taiwan is an independent country and China's "one country, two systems" formula devised for Hong Kong cannot be applied.

Rugby union

South Africa v British Lions, Durban.

Boxing

Evander Holyfield (US) fights Mike Tyson (US) in Las Vegas.

SUNDAY 29

Albanian vote

Albanians are due to vote in early parliamentary elections following months of turmoil sparked by the collapse of fraudulent pyramid schemes. Violence is still sweeping the country despite the presence of 6,000 European troops led by Italy. The polls are being supervised by the Organisation for Security and Cooperation in Europe whose mediator, Franz Vranitzky, the former Austrian chancellor, has rejected suggestions that voting be postponed. Election candidates have been prevented from campaigning in some areas. Last year's elections were won overwhelmingly by President Sali Berisha's Democratic party but were marred by widespread vote rigging and intimidation. Analysts say Berisha's Democrats may yet emerge the winners against the Socialist party of Fatos Nano.

Motor racing

French Grand Prix at Magny Cours

Compiled by Bob Vincent.
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ECONOMIC DIARY

Other economic news

Monday: West German inflation during June, out at some point this week, is likely to be subdued because of weak oil prices. The markets are looking for an annual rate of 1.5 per cent, unchanged from May.

Tuesday: The Bank of Japan Tankan survey for June is expected to show weakness, as fiscal austerity and a stronger yen dampen business optimism. After a positive reading in March, the index may drop again below zero in June.

Wednesday: The UK's visible trade deficit for April is expected not to show any great deterioration despite the strength of sterling. The markets are looking for a deficit of £580m after £671m in March.

Thursday: US initial jobless claims for the week ending June 21 are forecast to show a slight drop from the 347,000 reported in the previous week, as the labour market remains tight.

Friday: Japanese industrial production during May is expected to have gone up, after a 0.5 per cent monthly decline in April. The consensus forecast is for an increase by 2.3 per cent.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	Canada	Apr international securities transac.	C$0.0bn	-C$2.1bn
Jun 23	Italy	Jun 11 cities consumer price index*	0.2%	0.3%
	Italy	Jun 11 cities consumer price index**	1.6%	1.6%
Tue	US	Jun consumer confidence	125.3	127.1
Jun 24	US	Jun Redbook 21 June		1.7%
	Japan	Jun BOJ Tankan DI, manufacturing	0	2
	Japan	Jun BOJ Tankan DI, non-manufacturing	-7	-6
	Japan	'97 Tankan capital spending	3.5%	2.7%
	Japan	Jun trade balance, 1st 10 days, not†		Y113bn
Wed	France	May consumer price index final*	0.2%	0.2%
Jun 25	France	May consumer price index final**	0.9%	0.9%
	Italy	Apr quarterly unemployment	12.3%	12.4%
	UK	Apr global visible trade	-£580m	-£671m
	UK	May ex-EU visible trade	-£488m	-£335m
	US	May durable orders	0.5%	1.3% R
	US	May durable shipments		1.2% R
	Canada	May department store sales**	8.6%	9.5%
	Canada	Apr fix-weight employee earnings**	2.6%	2.7%
	Canda	May leading indicators*†	0.8%	0.8%
	US	May existing home sales	4.05m	4.06m
	Sweden	May trade balance	SKr11.5bn	SKr12.3bn
Thu	France	May household consumption*†	-0.2%	1.5%
Jun 26	Sweden	May producer price index**	1.1%	0.2%
	Norway	Jun unemployment rate – not†		3.2%
	US	Initial claims 21 June		347K
	Canada	May industrial production price index*	0.2%	0.5%
	Canada	May raw materials price index	2.1%	-1.1%
	US	M2 – week ended June 16		-$2.7bn
	Japan	Jun wholesale price index, 2nd 10 days		-0.1%
Fri	Japan	May industrial production†	2.3%	-0.5%
Jun 27	Japan	May shipments†		-2.8%
	Japan	May retail sales**		-8.1%
	Japan	May job offers/seekers ratio	0.71	0.71
	China	May M2	20.2%	20.6%
	France	Apr trade balance†	FFr10.2bn	FFr9.8bn
	France	Jun INSEE industrial survey	-7	-7
	Italy	May hourly wages	4.5%	4.5%
	Denmark	May unemployment rate†	7.8%	7.9%
	UK	Q1 gross domestic product final***	1.0%	0.9%
	UK	Q1 gross domestic product final**	3.0%	3.0%
	UK	Q1 current account	£0.6bn	£0.9bn
	US	Q1 gross domestic product final	5.8%	5.8%
During the week...				
	Germany	May producer price index*	0.2%	0.3%
	Germany	May producer price index**	1.1%	0.9%
	Germany	May import prices*	0.2%	-0.2%
	Germany	May import prices**	2.6%	2.1%
	Japan	May supermarket sales**		-4.6%
	Japan	May department store sales**		-14.0%

*mth on mth, **yr on yr, ***qtr on qtr, Revised, †seasonally adjusted. *Statistics Standard & Poor's MMS*

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

Provisional Price for 22.6.1997 / Final Prices for Trading 25.5.1997

1/2 hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	11.55	11.73	12.24	2.19
0100	10.03	11.55	12.08	2.19
0130	9.50	9.50	10.01	2.19
0200	10.03	9.50	10.01	2.19
0230	10.03	9.50	10.01	2.19
0300	10.03	9.50	10.01	2.19
0330	10.03	9.50	10.01	2.19
0400	10.03	9.50	10.01	2.19
0430	10.03	9.50	10.01	2.19
0500	10.03	9.50	10.01	2.19
0530	11.38	9.50	9.50	0.00
0600	11.38	7.00	7.00	0.00
0630	11.38	9.01	9.01	0.00
0700	11.38	9.50	9.50	0.00
0730	10.01	9.50	10.01	2.19
0800	11.38	9.50	9.50	0.00
0830	11.38	11.80	12.31	2.19
0900	17.94	11.80	12.31	2.19
0930	14.74	11.80	12.31	2.19
1000	15.29	17.44	17.85	2.19
1030	17.55	13.30	13.81	2.19
1100	17.18	17.91	18.42	2.19
1130	17.55	17.91	18.42	2.19
1200	22.19	22.31	22.82	2.19
1230	22.19	22.31	22.82	2.19
1300	22.19	22.31	22.82	2.19
1330	22.19	22.31	22.82	2.19
1400	17.55	17.91	18.42	2.19
1430	15.03	11.59	11.59	0.00
1500	15.03	11.57	11.57	0.00
1530	14.18	11.55	11.55	0.00
1600	14.42	9.50	9.50	0.00
1630	14.42	9.50	9.50	0.00
1700	14.18	9.50	9.50	0.00
1730	15.03	9.50	9.50	0.00
1800	15.03	9.50	9.50	0.00
1830	15.03	10.80	10.80	0.00
1900	15.03	10.80	10.80	0.00
1930	14.42	9.50	9.50	0.00
2000	14.42	11.55	11.55	0.00
2030	15.03	11.68	11.68	0.00
2100	15.03	11.68	11.68	0.00
2130	14.42	22.29	22.80	2.19
2200	18.67	22.29	22.80	2.19
2230	18.67	23.01	23.52	2.19
2300	18.67	17.34	17.85	2.19
2330	17.95	17.44	17.85	2.19
2400	14.04	13.30	13.81	2.19

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.86/MWh becomes 1.686p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. The Transmission Services Use of System Price (TSP) is charged by the National Grid Company plc (NGC) for the operation and development of its electricity transmission system for the purpose of estimating the costs arising from the operation of that system. Charges are calculated by NGC and are based on payments made by NGC into the Pool. TSP is also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool and on TSP on behalf of NGC by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6760 between 8.30am and 5.15pm Monday to Friday.

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Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

Provisional Price for 23.6.1997 / Final Prices for Trading 26.05.1997

1/2 hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	12.10	10.80	10.99	2.12
0100	12.10	9.50	9.50	0.00
0130	12.10	9.50	9.69	2.12
0200	12.10	9.50	9.69	2.12
0230	12.10	9.50	9.69	2.12
0300	12.10	9.50	9.69	2.12
0330	12.10	9.50	9.69	2.12
0400	12.10	9.50	9.69	2.12
0430	12.10	9.50	9.69	2.12
0500	10.62	9.50	9.69	2.12
0530	9.01	7.00	7.00	0.00
0600	7.00	7.00	7.00	0.00
0630	10.01	7.00	7.00	0.00
0700	10.03	7.00	7.00	0.00
0730	13.64	9.50	9.50	0.00
0800	18.91	11.58	11.58	0.00
0830	14.72	9.50	9.69	2.12
0900	18.70	9.50	9.69	2.12
0930	19.74	12.31	12.50	2.12
1000	21.11	14.34	14.52	2.12
1030	23.50	18.17	18.36	2.12
1100	23.95	18.17	18.36	2.12
1130	23.96	18.17	18.36	2.12
1200	41.59	18.17	18.36	2.12
1230	41.90	23.60	23.79	2.12
1300	41.45	23.60	23.79	2.12
1330	23.67	14.34	14.52	2.12
1400	19.71	14.34	14.52	2.12
1430	19.69	12.44	12.62	2.12
1500	19.69	12.44	12.62	2.12
1530	19.25	12.44	12.62	2.12
1600	19.26	12.44	12.62	2.12
1630	28.12	12.44	12.62	2.12
1700	30.29	12.44	12.62	2.12
1730	30.27	16.00	16.19	2.12
1800	19.25	16.00	16.19	2.12
1830	18.74	16.00	16.19	2.12
1900	22.37	12.44	12.62	2.12
1930	22.37	12.44	12.62	2.12
2000	18.91	11.58	11.58	0.00
2030	14.71	11.55	11.55	0.00
2100	14.71	11.55	11.55	0.00
2130	14.71	12.44	12.62	2.12
2200	22.37	13.35	13.54	2.12
2230	22.37	22.21	22.40	2.12
2300	22.37	22.21	22.40	2.12
2330	14.71	13.35	13.54	2.12
2400	12.29	11.58	11.58	0.00

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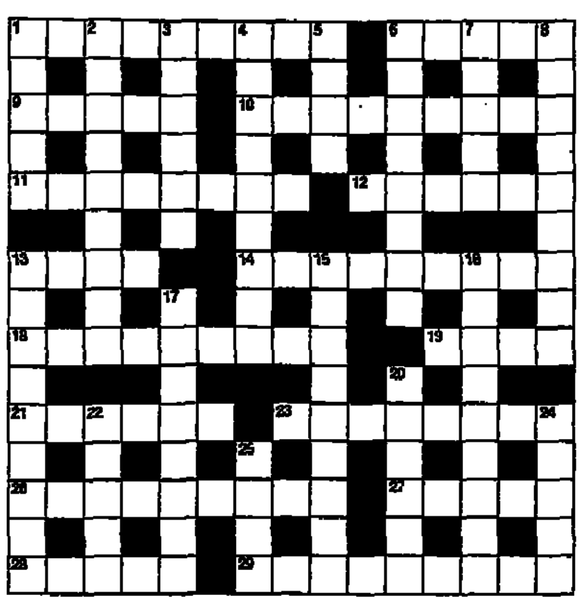
MONDAY PRIZE CROSSWORD

No.9,408 Set by COURTIER

Six bottles of Davys Celebration Champagne for the first correct solution opened and three runner-up prizes of £40 Davys food and wine vouchers redeemable in person or by post. These prizes are available only to winners living in England, Scotland and Wales. Winners with overseas addresses will receive a set of silver-plated place name bases and cards. Solutions by Thursday July 3, marked Monday Crossword 9,408 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday July 7. Please allow 28 days for delivery of prizes.



ACROSS

1, 6 Draw plants on display these next two weeks (9,5)
9 A northerner in Berkshire (5)
10 Alter appearance – grieve at a change (9)
11 Places screened for motorists (5-3)
12 Priceless pup Beatrice – a bullish trend (6)
13 It depends on many animals (4)
14 Edict to follow or dance around in (9)
18 Worn out? Make them atone (9)
19 Issue note and the French come round (4)
21 Save bar (6)
23 Heavenly ale thereabouts! (8)
26 Italian fellow follows my French, a churchman obviously (9)
27 Negotiate rooms with rural views (5)
28 Pearl's mother, in a manner of speaking, can return to regiment (5)
29 Imperils crazy Dane leading Poles around Germany (9)

DOWN

1 Soundly swing a wood (5)
2 Operator displays the speed of sound back in the street (9)
3 Strip the queen: agitation results (6)
4 Old desk puts Pat and vendor at odds (9)
5 Regulation Frenchman with an appendage (4)
6 No marines are average (8)
7 As before, about to eliminate (5)
8 Small tenor has weird mates round for something to eat (9)
13 Ann met him casually – at 1 across possibly (3,6)
15 A turn round in the action changed the property (9)
16 First is someone with less feeling (6,3)
17 Ain't deep enough for rising waters? (4,4)
20 Infection associated with a north European (6)
22 I believe the worst in pricy Nice (5)
24 Records leanings (5)
25 Keen to shape a joint (4)

Name..........

Address..........

WINNERS 9,396: Mrs H.J. Kindness, Woking, Surrey; Mrs Anne Gardner, Stourbridge; A.P. Montefiore, Axbridge, Somerset; Cecil Nightingale, Capel, Surrey

Solution 9,396

```
BROGUE SPORTIVE
A  N  N   L E R N
NOTIFY HATSTAND
D  H  O  T  N  I  T  L
STEALTHY ADHERE
A  N  D  R  W  E     S
WEAR MOTIONLESS
   I  H  U  L  T  D
TELLINGOFF CUBE
E     G  H  R  A  C  L
TAUGHT BELGRADE
H  S  J  S  D  E  T  G
EXHAUSTS ANGINA
R  E  M  Y     C  O  N
SCRAPPED CYGNET
```


JOTTER PAD